

OFFICIAL STATEMENT

Dated June 9, 2015

Ratings:

Moody's: "Aa2"

S&P: "AA"

See ("OTHER INFORMATION -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - TAX EXEMPTION" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

\$17,445,000
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2015

Dated Date: July 1, 2015

Due: Due: February 15 as shown on inside cover page

PAYMENT TERMS . . . Interest on the \$ 17,445,000 City of League City, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "Certificates") will accrue from July 1, 2015, (the "Dated Date") and will be payable August 15 and February 15 of each year commencing February 15, 2016, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is the Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act of 1971"), as amended, and constitute direct obligations of the City of League City, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a subordinate pledge of surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) the construction of public works, including street and traffic improvements and drainage improvements, and for the purchase of materials, supplies, equipment, machinery, building, land and rights-of-way related thereto; (ii) the acquisition, design, construction, equipping and improvement of the water and sanitary sewer system, including the extension of water lines and distribution lines, construction of new pump stations and securing water rights; and (iii) the costs of issuance associated with the Certificates.

SEE MATURITY SCHEDULE ON INSIDE COVER

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser(s) (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Houston, Texas (see APPENDIX C - "FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on July 7, 2015.

\$ 17,445,000

CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)

COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2015

MATURITY SCHEDULE

Due Feb. 15	Principal Amount	Interest Rate	Yield ⁽¹⁾	CUSIP ⁽²⁾
2016	\$ 490,000	5.000%	0.400%	521768 5P2
2017	590,000	5.000%	0.800%	521768 5Q0
2018	625,000	5.000%	1.190%	521768 5R8
2019	655,000	5.000%	1.500%	521768 5S6
2020	690,000	5.000%	1.720%	521768 5T4
2021	720,000	4.000%	2.000%	521768 5U1
2022	750,000	4.000%	2.220%	521768 5V9
2023	780,000	5.000%	2.380%	521768 5W7
2024	825,000	5.000%	2.540%	521768 5X5
2025	865,000	5.000%	2.690%	521768 5Y3
2026 ⁽³⁾	900,000	3.000%	3.000%	521768 5Z0
2027 ⁽³⁾	925,000	3.000%	3.140%	521768 6A4
2028 ⁽³⁾	955,000	3.125%	3.240%	521768 6B2
2029 ⁽³⁾	985,000	3.250%	3.370%	521768 6C0
2030 ⁽³⁾	1,020,000	3.375%	3.470%	521768 6D8
2031 ⁽³⁾	1,060,000	3.375%	3.530%	521768 6E6
2032 ⁽³⁾	1,095,000	3.500%	3.610%	521768 6F3
2033 ⁽³⁾	1,130,000	3.500%	3.650%	521768 6G1
2034 ⁽³⁾	1,175,000	3.625%	3.720%	521768 6H9
2035 ⁽³⁾	1,210,000	3.625%	3.760%	521768 6J5

- (1) The initial price or yield is furnished by the Initial Purchaser(s) and represents the initial offering price or yield to the public, which may be changed by the Initial Purchaser(s) at any time.
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, A Division of the McGraw-Hill Companies, Inc. and included solely for the convenience of the purchasers of the Certificates. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (3) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

Neither the City, nor the Financial Advisors, nor the Initial Purchasers make any representation or warranty with respect to the information contained in the Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System as described under "THE BONDS- BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC.

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OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY	The City of League City, Texas is a political subdivision and municipal corporation of the State, located in Galveston County and Harris County, Texas. The City covers approximately 53 square miles (see "INTRODUCTION - DESCRIPTION OF CITY").
THE CERTIFICATES	The Certificates are issued as \$17,445,000 Combination Tax and Revenue Certificates of Obligation, Series 2015. The Certificates are issued as serial certificates maturing February 15, 2016 through February 15, 2035 (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the Date of Delivery, and is payable February 15, 2016 and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act of 1971"), as amended, and an Ordinance passed by the City Council of the City (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a subordinate pledge of surplus net revenues of the City's Waterworks and Sewer System (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT").
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for (i) the construction of public works, including street and traffic improvements and drainage improvements, and for the purchase of materials, supplies, equipment, machinery, building, land and rights-of-way related thereto; (ii) the acquisition, design, construction, equipping and improvement of the water and sanitary sewer system, including the extension of water lines and distribution lines, construction of new pump stations and securing water rights and (iii) the costs of issuance associated with the Certificates.
RATINGS	The Certificates and presently outstanding general obligation debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, A Division of McGraw-Hill Companies, Inc. ("S&P"), without regard to credit enhancement (see "OTHER INFORMATION - RATINGS").
BOOK-ENTRY-ONLY SYSTEM	The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM").
PAYMENT RECORD	The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Per Capita G.O. Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Total Tax Collections as a Percent of Total Levy
2010	83,560	\$ 5,223,498,562	\$ 62,512	\$ 96,335,000	\$ 1,153	1.84%	99.82%
2011	85,300	5,238,239,400	61,410	107,135,000	1,256	2.05%	99.81%
2012	87,400	5,299,069,456	60,630	192,395,000	2,201	3.63%	99.72%
2013	90,300	5,339,621,396	59,132	182,135,000	2,017	3.41%	99.68%
2014	95,500	5,531,219,985	57,919	171,680,000	1,798	3.10%	99.59%
2015	96,209	5,751,870,015	59,785	196,825,000 ⁽⁴⁾	2,046	3.42%	97.45% ⁽⁵⁾

(1) Population estimated by the City.

(2) As reported by the Galveston Central and Harris County Appraisal District, subject to adjustments throughout the year.

(3) Includes self-supporting debt.

(4) Includes the Certificates and General Obligation Refunding Bonds, Series 2015, which priced on May 19th, 2015.

(5) Collections through April 30, 2015.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2014	2013	2012	2011	2010
Total Revenue	\$ 50,913,480	\$ 47,476,212	\$ 46,570,209	\$ 45,152,558	\$ 44,680,986
Total Expenditures	49,607,270	47,561,486	46,596,447	45,325,204	44,302,596
Other Sources (Uses)	(1,325,979)	91,474	(4,342,720)	(766,825)	348,836
Beginning Fund Balance	16,363,119	16,356,919	20,725,877	21,665,348	20,938,122
Increase (decrease) in Fund Balance	(19,769)	6,200	(4,368,958)	(939,471)	727,226
Ending Fund Balance	<u>\$ 16,343,350</u>	<u>\$ 16,363,119</u>	<u>\$ 16,356,919</u>	<u>\$ 20,725,877</u>	<u>\$ 21,665,348</u>

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Title	Length of Service	Term Expires November	Occupation
Timothy Paulissen	Mayor	5 Years	2018	Publisher
Dan Becker	Council Member	5 Years	2018	Engineer
Tommy Cones	Council Member	< 1 Year	2018	Firefighter
Heidi Hansing	Council Member	3 Years	2015	Business Owner
Todd Kinsey	Council Member	3 Years	2015	Freelance Writer
Geri Bentley	Council Member	3 Years	2015	Interior Designer
Keith Gross	Council Member	< 1 Year	2018	Attorney
Nick Long	Council Member	< 1 Year	2018	Insurance Consultant

SELECTED ADMINISTRATIVE STAFF

Name	Position	Service To City	Total Governmental Service
R. Mark Rohr	City Manager	1 Year	32 Years
Rebecca Underhill	Director of Finance	3 Years	23 Years
Lonna Stein	Controller	31 Years	31 Years
Diana Stapp	City Secretary	12 Years	12 Years

CONSULTANTS AND ADVISORS

Auditors	Weaver Tidwell, LLP Houston, Texas
Bond Counsel.....	Norton Rose Fulbright US, LLP Houston, Texas
Financial Advisor.....	First Southwest Company, LLC Houston, Texas

For additional information regarding the City, please contact:

Rebecca Underhill City of League City Director of Finance 300 West Walker League City, Texas 77573 (281)554-1368 Phone (281)554-1354 Fax	or	Joe Morrow Financial Advisor First Southwest Company, LLC 700 Milam, Suite 500 Houston, Texas 77008 (713) 651-9850 Phone (713) 654-8658 Fax
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OFFICIAL STATEMENT

RELATING TO

**\$17,445,000
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris Counties)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2015**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$17,445,000 City of League City, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the applicable ordinances approving the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisors, First Southwest Company, LLC, Houston, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State, duly organized under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1961, and first adopted its Home Rule Charter on March 27, 1962. The City operates with a City Council comprised of the Mayor and seven Councilmembers serving four year terms with biennial elections. By virtue of municipal elections conducted on May 8, 2010, the City's Home Rule Charter was amended so as to adopt the Council-Manager form of government. A City Manager now serves as the Chief Administrative and Executive Officer of the City, appointed by the City Council to administer all municipal affairs of the City. Some of the services that the City provides are public safety, highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The 2010 Census population for the City was 83,560, while the estimated 2015 population is 96,209. The City covers approximately 53 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated June 1, 2015, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2016. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM" herein).

AUTHORITY FOR ISSUANCE

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Act"), as amended, and an ordinance (the "Certificate Ordinance") passed by the City Council.

SECURITY AND SOURCE OF PAYMENT

All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within the limits prescribed by law. Additionally, the Certificates are payable from and secured by a subordinate pledge of surplus net revenues of the City's Waterworks and Sewer System, as provided in the Ordinance.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes.

Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance. See "TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY" for the City's current tax rate and historical tax rate, levy, and collection history.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025 or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate or the principal amount thereof (to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE

The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal, interest and redemption price thereon in any manner now or hereafter permitted by law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the BOOK-ENTRY-ONLY SYSTEM has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Obligations. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing City ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing City and Fixed Income Clearing City, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificates documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

Redemption notices for the Certificates will be sent to DTC. If less than all of the Certificates of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the respective Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue the use of the system of BOOK-ENTRY-ONLY transfers through DTC (or a successor depository). In that event, Certificates, as appropriate, will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Certificates are in the BOOK-ENTRY-ONLY SYSTEM, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Initial Purchaser.

Effect of Termination of BOOK-ENTRY-ONLY SYSTEM. In the event that the BOOK-ENTRY-ONLY SYSTEM of the Certificates is discontinued, printed Certificates will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar for the Certificates is the Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Certificate Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Certificates. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States of America or of any other State, authorized under such laws to exercise corporate trust power, having a combined capital and surplus of at least \$10,000,000 subject to supervision or examination of a federal or state authority, registered as a transfer agent with the Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar is required to transfer or exchange any Certificates called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of Certificates.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 10 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CERTIFICATE HOLDERS' REMEDIES

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificate holders may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants in the absence of City action. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

The Ordinance does not establish specific events of default with respect to the Certificates or provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. If the City defaults in any payment due on the Certificates, or if the City defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus or mandatory injunction from a court of proper jurisdiction to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Certificates as they become due or to perform other material covenants, conditions or obligations contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract; and, Texas law provides that, following their approval by the Attorney General and issuance, the Certificates are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Such rights are in addition to any other rights the registered owners of the Certificates may be provided by the laws of the State of Texas with respect to the Certificates.

Under Texas law there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Certificates could file suit against the City if a default occurred in the payment of principal of or interest on any such Certificates; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the City.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity, which has sought protection under Chapter 9.

Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another federal or state court); and, the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Certificate Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

AMENDMENT TO THE ORDINANCE

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the consent of registered owners holding a majority in aggregate principal amount of the Certificates, then Outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all registered owners of Outstanding Certificates, affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any such Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any such Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on any such Certificate, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of Certificates required for consent to any amendment, addition, or waiver.

TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the Galveston County Appraisal District and Harris County Appraisal District (collectively, the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. A residence homestead is valued solely on the basis of its value as a residence homestead, regardless of whether residential use by the owner is considered to be the highest and best use of the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000. provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such

exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repeated or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1 j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods in transit." "Goods in transit" is defined by a provision in the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no Certificates secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$45,000; the disabled are also granted an exemption of \$45,000.

The City has granted an additional exemption of 14% of the market value of residence homesteads; minimum exemption of \$5,000. See Table 1 for a listing of the amounts of the exemptions described above.

Pursuant to Article VIII, Section 1-b of the Constitution of the State of Texas, the City has granted an ad valorem tax freeze on residence homesteads of the disabled and of individuals sixty-five (65) years of age or older. Ad valorem tax year 2006 serves as the base valuation year. The freeze loss for tax year 2012, 2013 and 2014 was \$53,365, \$50,385 and \$51,145, respectively.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads.

The City does not tax nonbusiness personal property;

Galveston County collects taxes for the City.

The City does permit split payments, and does not permit discounts. The City does not tax freeport property

The City has adopted a tax abatement policy.

380 AGREEMENTS

On October 10, 2014, the City entered into a Chapter 380 Economic Development Incentives Grant Agreement in order to encourage economic development within the City. The City will provide annual payments consisting of sales tax and property tax associated with the development through December 31, 2030 or totaling \$9,346,000, whichever occurs first.

The City has also entered into six additional performance based 380 agreements with expiration dates ranging from March 2016 to December 2022 under which the City has outstanding payments in an aggregate total of approximately \$2,000,000 over the respective terms.

TAX ABATEMENT POLICY

The City may grant up to 100% abatement of property taxes on buildings, fixed machinery and business personal property for up to ten years. Minimum qualifications for tax abatement are \$1 million in real property improvements and 15 new jobs created. Up to 50% tax abatement may be granted for eligible projects with \$500,000 to \$1 million in improvements and 7 jobs created.

Galveston County may join The City on projects that meet the county's eligibility requirements. Certain manufacturing or research and development corporations may qualify for reduction in school district property taxes under the Texas Economic Development Act. This incentive program was created in order to provide companies making a substantial capital investment to receive tax credits from participating local school districts.

The tax abatement on the 2014 assessed valuation is \$0.

TAX INCREMENT FINANCING ZONE

The City has three tax increment reinvestment zones that are currently in existence. Tax increments have been used to finance the development of major infrastructure within the City.

The Tax Increment Reinvestment Zone No. 2 – Victory Lakes (“TIRZ No. 2”) was created with a base year of January 1, 1999 and encompasses an area of approximately 540 acres. The zone was enlarged in 2006 to include an additional 102 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 3 – Centerpointe (“TIRZ No. 3”) was created with a base year of January 1, 2000 and encompasses an area of approximately 352 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 4 – Westwood (“TIRZ No. 4”) was created with a base year of January 1, 2003 and encompasses an area of approximately 493 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The City participates at 100% for TIRZ No. 2 and No. 3 and at 75% for TIRZ No. 4.

Incremental value created within the tax increment financing zones produces tax revenues which are not pledged to the repayment of the Certificates. The 2014 Taxable Assessed Value within the three existing zones is equal to \$508,402,525.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2014/2015 Market Valuation Established by Galveston Central and Harris County Appraisal Districts (excluding totally exempt property)		\$ 6,680,890,135
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	\$613,078,365	
Veteran Homestead Exemptions	32,302,543	
Homestead Cap Adjustment	23,258,232	
Over 65	184,345,369	
Disabled Persons	19,204,710	
Prorated Exempt	602,439	
Freeport Exemptions	6,727,573	
Pollution	14,561	
House Bill 366	12,407	
Productivity Loss	49,473,921	\$ 929,020,120
2014/2015 Taxable Assessed Valuation		\$ 5,751,870,015
General Obligation Debt Payable from Ad Valorem Taxes (as of September 30, 2014) ⁽¹⁾		
General Obligation Refunding Bonds	63,235,000	
Combination Tax & Revenue Certificates of Obligation	112,915,000	
The Certificates	17,445,000	\$ 193,595,000
Less: Self-Supporting Debt ⁽²⁾		\$ 112,405,968
Net General Obligation Debt Payable from Ad Valorem Taxes		\$ 81,189,032
Estimated Interest and Sinking Fund (as of 9/30/2014)		\$ 2,861,859
Ratio Net General Obligation Debt to Taxable Assessed Valuation		1.41%

2015 Estimated Population - 96,209
Per Capita Taxable Assessed Valuation - \$59,785
Per Capita Net General Obligation Funded Debt - \$844

(1) Includes the Certificates and the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015.

(2) General obligation debt in the amounts shown for which repayment is provided from revenues other than ad valorem taxes. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Fiscal Year Ended September 30,					
	2015		2014		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real Residential, Single-Family	5,239,216,190	78.42%	\$ 4,841,050,833	77.25%	\$ 4,716,202,520	78.17%
Real, Residential, Multi-Family	248,307,326	3.72%	240,131,639	3.83%	235,660,210	3.91%
Real, Vacant Platted Lots/Tracts	93,197,151	1.39%	102,446,823	1.63%	100,187,391	1.66%
Real, Acreage (Land Only)	104,070,383	1.56%	119,547,394	1.91%	128,810,182	2.13%
Real, Farm and Ranch Improvements	7,130,920	0.11%	7,959,220	0.13%	7,942,620	0.13%
Real, Commercial and Industrial	518,939,768	7.77%	546,254,532	8.72%	492,900,506	8.17%
Real, Oil, Gas & Other Mineral Reserves	10,417	0.00%	11,010	0.00%	196,611	0.00%
Real and Intangible Personal, Utilities	85,242,301	1.28%	72,122,022	1.15%	75,289,351	1.25%
Tangible Personal, Business	307,400,135	4.60%	273,300,447	4.36%	208,448,208	3.45%
Tangible Personal, Other	5,097,336	0.08%	5,106,856	0.08%	5,091,123	0.08%
Real, Inventory	45,817,448	0.69%	36,134,684	0.58%	43,192,030	0.72%
Special Inventory	26,460,760	0.40%	22,486,720	0.36%	19,495,030	0.32%
Total Appraised Value Before Exemptions	\$ 6,680,890,135	100.00%	\$ 6,266,552,180	100.00%	\$ 6,033,415,782	100.00%
Less: Total Exemption/Reductions	929,020,120		735,332,195		693,794,386	
Taxable Assessed Value	<u>\$ 5,751,870,015</u>		<u>\$ 5,531,219,985</u>		<u>\$ 5,339,621,396</u>	

Category	Fiscal Year Ended September 30,			
	2012		2011	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,687,645,032	78.36%	\$ 4,576,515,793	77.33%
Real, Residential, Multi-Family	222,409,880	3.72%	231,243,020	3.91%
Real, Vacant Platted Lots/Tracts	101,830,382	1.70%	110,763,289	1.87%
Real, Acreage (Land Only)	129,793,121	2.17%	143,405,631	2.42%
Real, Farm and Ranch Improvements	7,802,410	0.13%	9,019,352	0.15%
Real, Commercial and Industrial	493,086,795	8.24%	498,535,723	8.42%
Real, Oil, Gas & Other Mineral Reserves	149,770	0.00%	255,071	0.00%
Real and Intangible Personal, Utilities	69,264,362	1.16%	68,091,185	1.15%
Tangible Personal, Business	190,279,678	3.18%	197,271,968	3.33%
Tangible Personal, Other	5,038,968	0.08%	5,538,793	0.09%
Real, Inventory	55,764,948	0.93%	61,745,142	1.04%
Special Inventory	18,802,230	0.31%	16,137,290	0.27%
Less: Total Exemption/Reductions	\$ 5,981,867,576	100.00%	\$ 5,918,522,257	100.00%
Taxable Assessed Value	<u>682,798,120</u>		<u>680,282,857</u>	
	<u>\$ 5,299,069,456</u>		<u>\$ 5,238,239,400</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Galveston Central and Harris County Appraisal Districts to the State Comptroller of Public Account as of January 1 of the preceding calendar year. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2010	83,560	\$5,223,498,562	\$ 62,512	\$ 96,335,000	1.84%	\$ 1,153
2011	85,300	5,238,239,400	61,410	107,135,000	2.05%	1,256
2012	87,400	5,299,069,456	60,630	192,395,000	3.63%	2,201
2013	90,300	5,339,621,396	59,132	182,135,000	3.41%	2,017
2014	95,500	5,531,219,985	57,919	171,680,000	3.10%	1,798
2015	96,209	5,751,870,015	59,785	196,825,000 ⁽⁴⁾	3.42% ⁽⁴⁾	2,046 ⁽⁴⁾

(1) Population estimated by the City.

(2) As reported by the Galveston Central and Harris County Appraisal District as of January 1 of the preceding calendar year. Subject to adjustments throughout the year.

(3) Includes self-supporting debt.

(4) Includes the Certificates and the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year	Tax Year	Total Tax Rate	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
				Amount	Percent of Levy		Amount	Percent of Levy
2010	2009	\$0.6300	\$32,983,623	\$32,560,792	98.72%	\$ 364,365	\$32,925,157	99.82%
2011	2010	0.6160	32,904,882	32,527,089	98.85%	314,897	32,841,986	99.81%
2012	2011	0.6100	33,366,999	32,955,026	98.77%	317,481	33,272,507	99.72%
2013	2012	0.5970	33,388,376	33,099,293	99.13%	181,957	33,281,250	99.68%
2014	2013	0.5970	34,309,359	34,061,842	99.28%	106,032	34,167,874	99.59%
2015	2014	0.5970	36,018,549	35,098,593 ⁽¹⁾	97.45%	-	35,098,593 ⁽¹⁾	97.45%

(1) Collections as of April 30, 2015.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2014/2015 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Komatsu America Corp.	Equipment Rental	\$ 106,828,928	1.86%
Texas-New Mexico Power	Utility	33,940,714	0.59%
Inland America LC Victory Lakes	Developer	30,919,030	0.54%
American National Insurance Co.	Insurance	24,535,750	0.43%
Excel League City LLC	Retail Developer	21,997,860	0.38%
Sunstone Broadstone LP	Developer	20,834,090	0.36%
GS Beacon Lakes LP	Developer	19,080,000	0.33%
Amalfi Tuscan Lake Investors LLC	Developer	17,223,410	0.30%
Fairway At South Shore LLC	Developer	16,704,130	0.29%
GS Haven South Shore LP	Developer	16,572,970	0.29%
		<u>\$ 308,636,882</u>	<u>5.37%</u>

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE CERTIFICATES - TAX RATE LIMITATION").

TABLE 6 - TAX ADEQUACY

Maximum Net Principal and Interest Requirements (2018).....	\$ 9,067,614 ⁽¹⁾
\$0.16430 Tax Rate at 96% Collection Produces	9,072,310
Average Net Principal and Interest Requirements on outstanding debt (2015-2020).....	\$ 8,701,476 ⁽¹⁾
\$0.15760 Tax Rate at 96% Collection Produces	8,702,349
Average Net Principal and Interest Requirements on outstanding debt (2021-2035).....	\$ 4,931,893 ⁽¹⁾
\$0.08940 Tax Rate at 96% Collection Produces	4,936,485

(1) Includes the Certificates and the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015.

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TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

	2014/2015 Taxable Assessed Value	2014/2015 Tax Rate	Total G.O. Debt as of 4/1/15	Estimated % Applicable	City's Overlapping G.O. Debt as of 4/1/15
City of League City	\$ 5,751,870,015	\$ 0.597	\$ 196,825,000 ⁽¹⁾	100.00%	\$ 196,825,000
Bay Colony West MUD	67,977,618	1.000	5,455,000	100.00%	5,455,000
Clear Creek ISD	15,016,295,321	1.400	669,599,458	28.57%	191,304,565
Dickinson ISD	2,241,306,922	1.540	231,944,937	29.39%	68,168,617
Galveston Co	18,763,026,321	0.590	338,288,422	24.04%	81,324,537
Galveston Co MUD # 3	207,858,513	0.120	3,575,000	100.00%	3,575,000
Galveston Co MUD # 6	280,748,782	0.439	4,045,000	100.00%	4,045,000
Galveston Co MUD # 13	347,217,090	0.500	18,280,000	100.00%	18,280,000
Galveston Co MUD # 14	151,937,791	0.740	6,675,000	100.00%	6,675,000
Galveston Co MUD # 15	179,612,935	0.760	15,390,000	100.00%	15,390,000
Galveston Co MUD # 39	183,143,565	0.880	13,435,000	100.00%	13,435,000
Galveston Co MUD # 43	191,291,552	1.000	19,350,000	100.00%	19,350,000
Galveston Co MUD # 44	193,556,248	0.800	22,290,000	100.00%	22,290,000
Galveston Co MUD # 46	43,011,134	1.000	3,870,000	100.00%	3,870,000
Harris Co	75,309,715	0.417	9,145,000	100.00%	9,145,000
Harris Co Department of Education	264,233,708,121	0.006	2,160,291,628	0.03%	648,087
Harris Co Flood Control Dist	264,375,475,666	0.028	8,160,000	0.03%	2,448
Port of Houston Auth	256,602,956,381	0.017	102,539,024	0.03%	30,762
Santa Fe ISD	256,568,247,373	1.449	763,619,397	0.03%	229,086
South Shore Harbour MUD # 7	908,927,109	0.530	60,955,000	2.09%	1,273,960
Tara Glen MUD	212,959,604	0.660	3,560,000	100.00%	3,560,000
Total Direct and Overlapping Funded Debt					\$ 664,877,061
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					11.56%
Per Capita Overlapping Funded Debt					\$ 6,911

(1) Includes the Certificates and the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015. Includes self-supporting debt.

DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service ⁽¹⁾			The Certificates			Less: Self-Supporting Debt	Total Net Debt Service Requirements ⁽²⁾
	Principal	Interest	Total	Principal	Interest	Total		
2015	\$ 8,263,000	\$ 6,961,007	\$ 15,226,007				\$ 6,851,382	\$ 8,374,625
2016	9,075,000	7,263,564	16,338,564	\$ 490,000	\$ 757,524	\$ 1,247,524	8,960,442	8,625,646
2017	9,815,000	6,960,916	16,775,916	590,000	646,688	1,236,688	9,539,342	8,473,262
2018	10,680,000	6,620,428	17,300,428	625,000	616,313	1,241,313	9,474,127	9,067,614
2019	11,320,000	6,235,879	17,555,879	655,000	584,313	1,239,313	9,785,304	9,009,888
2020	11,435,000	5,782,616	17,217,616	690,000	550,688	1,240,688	9,800,479	8,657,824
2021	11,265,000	5,285,438	16,550,438	720,000	519,038	1,239,038	9,694,193	8,095,283
2022	11,755,000	4,769,007	16,524,007	750,000	489,638	1,239,638	9,727,859	8,035,785
2023	11,650,000	4,272,518	15,922,518	780,000	455,138	1,235,138	9,385,453	7,772,203
2024	11,415,000	3,817,940	15,232,940	825,000	415,013	1,240,013	9,292,388	7,180,564
2025	11,725,000	3,330,766	15,055,766	865,000	372,763	1,237,763	9,205,780	7,087,749
2026	10,645,000	2,820,900	13,465,900	900,000	337,638	1,237,638	8,260,419	6,443,118
2027	10,785,000	2,318,016	13,103,016	925,000	310,263	1,235,263	8,326,945	6,011,334
2028	11,350,000	1,813,930	13,163,930	955,000	281,466	1,236,466	8,442,513	5,957,883
2029	11,585,000	1,334,431	12,919,431	985,000	250,538	1,235,538	8,455,894	5,699,075
2030	10,820,000	840,956	11,660,956	1,020,000	217,319	1,237,319	8,518,428	4,379,847
2031	9,400,000	385,438	9,785,438	1,060,000	182,219	1,242,219	7,925,391	3,102,266
2032	4,180,000	104,622	4,284,622	1,095,000	145,169	1,240,169	2,437,744	3,087,047
2033	480,000	8,100	488,100	1,130,000	106,231	1,236,231	1,022,956	701,375
2034				1,175,000	65,159	1,240,159	1,024,013	216,147
2035				1,210,000	21,931	1,231,931	1,023,216	208,716
	<u>\$187,645,000</u>	<u>\$70,926,472</u>	<u>\$258,571,472</u>	<u>\$17,445,000</u>	<u>\$ 7,325,043</u>	<u>\$ 24,770,043</u>	<u>\$ 157,154,268</u>	<u>\$ 126,187,248</u>

(1) "Outstanding Debt" does not include lease/purchase obligations. Includes the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015.

(2) A portion of the Certificates is to be self-supporting. See Table 11 "Computation of Self-Supporting Debt".

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2015		\$ 8,374,625 ⁽¹⁾
Interest and Sinking Fund, 9/30/2014	\$ 2,861,859	
Budgeted Interest and Sinking Fund Collections	11,300,000	
Less: Rebates to Municipal Utility Districts	(2,027,000)	
Less: Rebates to Tax Increment Zone	(970,000)	
Less: Estimated Fees	(5,000)	
Estimated Investment Income / Penalty & Interest	160,000	11,319,859
Estimated Balance, 9/30/2015		<u>\$ 2,945,234</u>

(1) Includes the Certificates and the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015. Excludes self supporting debt.

TABLE 10 - REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE

The City has outstanding contractual bonds sold by the Gulf Coast Water Authority ("GCWA") for the benefit of the City. The City is responsible for 100% of the currently outstanding \$1,640,000 GCWA Water System Contract Revenue Bonds, Series 2011F; approximately 1.82% of the currently outstanding \$14,710,000 Water System Contract Revenue Refunding Bonds, Series 2011A; and approximately 2.01% of the currently outstanding \$2,560,000 Water System Contract Revenue Refunding Bonds, Series 2011B. The contractual bonds are payable as operating expenses of the City's waterworks system.

TABLE 11 - COMPUTATION OF SELF-SUPPORTING DEBT⁽¹⁾

The City also has certain outstanding general obligation bonds and combination tax and revenue certificates of obligation of which some of the proceeds were used for projects that generate revenue for subsequent repayment. The debt from these bonds and certificates of obligation is currently being paid in full or in part from such revenue and is listed below:

Issue	Percent Attributed to Self-Supporting Revenue	Revenue Source Fund	Self-Supporting Debt Due in 2015 Fiscal Year
General Obligation Refunding Bonds, Series 2007	100%	Waterworks and Sewer System	\$ 410,234
Combination Tax and Revenue Certificates of Obligation, Series 2010	100%	TIRZ 2	152,150
Combination Tax and Revenue Certificates of Obligation, Series 2011	44%	4B Corporation	661,880
General Obligation Refunding Bonds, Series 2011A	41%	Waterworks and Sewer System	450,806
General Obligation Refunding Bonds, Series 2011B	100%	TIRZ 3	977,400
Combination Tax and Revenue Certifications of Obligation, Series 2011A	100%	Waterworks and Sewer System	1,428,525
General Obligation Refunding Bonds, Series 2012	49%	Waterworks and Sewer System	300,900
Combination Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012B	100%	Waterworks and Sewer System	1,409,525
General Obligation Refunding Bonds, Series 2013	7%	Waterworks and Sewer System	176,690
General Obligation Refunding Bonds, Series 2013A	100%	PID 3	295,830
General Obligation Refunding Bonds, Series 2014A	100%	PID 1	427,828
General Obligation Refunding Bonds, Series 2015	66%	Waterworks and Sewer System	159,614
			<u>\$ 6,851,382</u>

(1) Includes the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015.

The debt issues described in this table are general obligation debt for which repayment is provided from surplus net revenues of the water and sewer system for the general obligation bonds, payments from the 4B Industrial Corporation for the Combination Tax and Revenue Certificates of Obligation, Series 2011, payments from Tax Increment Reinvestment Zone No. 2 ("TIRZ #2") for Combination Tax and Revenue Certificates of Obligation, Series 2010, payments from Tax Increment Reinvestment Zone No. 3 ("TIRZ #3") for General Obligation Refunding Bonds, Series 2011B, payments from the 4B Industrial Development Corporation for Combination Tax and Revenue Certificates of Obligation, Series 2011, payments from the Public Improvement District No. 1 ("PID #1") for General Obligation Refunding Bonds, Series 2014A and payments from the Public Improvement District No. 3 ("PID #3") for General Obligation Refunding Bonds, Series 2013A. It is the City's current policy to provide these payments from such respective sources. There is no assurance that the use of these sources to make these payments will continue in the future. If payments are not made from such sources in the future, the difference will be paid for with ad valorem taxes.

Waterworks and Sewer System Computation

Net Revenues Available for Debt Service from Waterworks and Sewer System (9/30/2014)	\$ 21,671,430
Waterworks and Sewer System Revenue Bond Requirements (9/30/2015) ⁽¹⁾	7,635,611
Balance Available	\$ 14,035,819
Waterworks and Sewer System General Obligation Bond Requirements (9/30/2015) ⁽¹⁾	4,336,294
Balance	\$ 9,699,525
Percentage of Waterworks and Sewer System General Obligation Bonds Self-Supporting	100.00%

4B Industrial Corporation Computation

Gross Revenues Available for Debt Service from 4B Industrial Corp. (9/30/2014)	\$ 2,303,866
4B Industrial Corp. General Obligation Bond Requirements (9/30/2015)	661,880
Balance	\$ 1,641,986
Percentage of 4B Industrial Corp. General Obligation Bonds Self-Supporting	100.00%

TIRZ #2 Computation

Gross Revenues Available for Debt Service from TIRZ #2 Fund (9/30/2014)	\$ 3,830,092
TIRZ #2 General Obligation Bond Requirements (9/30/2015)	152,150
Balance	\$ 3,677,942
Percentage of TIRZ #2 General Obligation Bonds Self-Supporting	100.00%

TIRZ #3 Computation

Gross Revenues Available for Debt Service from TIRZ #3 Fund (9/30/2014)	\$ 981,714
TIRZ #3 General Obligation Bond Requirements (9/30/2015)	977,400
Balance	\$ 4,314
Percentage of TIRZ #3 General Obligation Bonds Self-Supporting	100.00%

PID #1 Computation

Gross Revenues Available for Debt Service from PID #1 Fund (9/30/2014)	\$ 578,749
PID #1 Fund General Obligation Bond Requirements (9/30/2015)	427,828
Balance	\$ 150,921
Percentage of PID #1 General Obligation Bonds Self-Supporting	100.00%

PID #3 Computation

Gross Revenues Available for Debt Service from PID #3 Fund (9/30/2014)	\$ 404,508
PID #3 Fund General Obligation Bond Requirements (9/30/2015)	295,830
Balance	\$ 108,678
Percentage of PID #3 General Obligation Bonds Self-Supporting	100.00%

(1) Includes the General Obligation Refunding Bonds, Series 2015 which priced on May 19, 2015.

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Authorized but Unissued
July 15, 1969	City Hall	\$ 862,250	\$ 856,000	\$ 6,250
September 19, 1992	Public Safety Improvements	400,000	-	400,000
		<u>\$ 1,262,250</u>	<u>\$ 856,000</u>	<u>\$ 406,250</u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City does not anticipate the issuance of general obligation debt in the next 12 months. However, the City intends to issue Certificates of Obligation debt in an amount to be determined in the next 12 months.

TABLE 13 - OTHER OBLIGATIONS

As of September 30, 2014, the City currently has no other obligations outstanding.

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note # IV-C)

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits through the Texas Municipal Retirement System ("TMRS"), the City has opted to provide eligible retired employees with the following post-employment benefits:

- Employees retiring from the City with 20 years of service, between the ages of 60 and 65, will have premiums paid at 100% by the City.
- Employees eligible to retire under TMRS as a disability retiree if they have worked with the City for a minimum of five years and have at least 10 years of combined governmental service are eligible to have a portion of their premium paid by the City based on their age.

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The amount budgeted for the fiscal year ending September 30, 2015 is \$62,850. The appropriation for the fiscal year ending September 30, 2014 was \$62,580. At September 30, 2014, there were 10 participants receiving benefits.

As of fiscal year 2009, the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." In preparation of GASB 45, the City commissioned an actuarial valuation of its post-retirement benefit liability. (For more information concerning the City's post-employment benefits and a summary of the actuarial results, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note #IV-D).

FINANCIAL INFORMATION

TABLE 14 - CHANGE IN NET ASSETS

	For Fiscal Year Ended September 30,				
Revenue:	2014	2013	2012	2011	2010
Program Revenue:					
Charges for Services	\$ 10,432,512	\$ 13,056,348	\$ 12,971,491	\$ 12,398,954	\$ 12,987,556
Operating Grants and Contributions	3,084,319	3,955,289	4,196,145	4,933,663	2,283,291
Capital Grants and Contributions	26,277,018	13,647,269	6,716,349	8,322,972	5,936,627
General Revenue:					
Property Tax	\$ 34,663,278	\$ 33,655,411	\$ 33,547,416	\$ 33,116,936	\$ 33,289,007
Franchise Tax	5,725,179	12,645,222	12,283,836	11,167,925	4,831,866
Sales and Uses Taxes	13,823,196	5,284,383	5,187,232	4,927,378	10,359,528
Unrestricted Investment Earnings	51,719	122,325	291,101	146,199	192,401
Miscellaneous	1,746,482	2,272,354	1,635,709	572,180	473,164
Total Revenue	\$ 95,803,703	\$ 84,638,601	\$ 76,829,279	\$ 75,586,207	\$ 70,353,440
Expenses:					
General Government	\$ 13,318,257	\$ 13,619,373	\$ 14,240,323	\$ 12,458,678	\$ 13,532,893
Public Safety	24,139,580	14,137,487	20,758,655	22,078,186	21,024,434
Public Works	26,756,596	32,305,670	36,394,958	25,107,956	30,791,382
Community Services	8,072,245	7,279,603	6,872,442	4,243,548	6,855,694
Interest on Long-Term Debt	4,376,432	4,902,242	4,541,184	3,868,803	3,506,914
Total Expenses	\$ 76,663,110	\$ 72,244,375	\$ 82,807,562	\$ 67,757,171	\$ 75,705,317
Increase in Net Assets before Transfers	\$ 19,140,593	\$ 12,394,226	\$ (5,978,283)	\$ 7,829,036	\$ (5,351,877)
Transfers	2,616,555	2,250,000	2,240,000	686,001	953,006
Gain/Loss on Disposition of Capital Assets	-	(50,572)	-	-	-
Increase (Decrease) in Net Assets	\$ 21,757,148	\$ 14,593,654	\$ (3,738,283)	\$ 8,515,037	\$ (4,398,871)
Net Assets at Beginning of Year	188,840,850	174,247,196	177,985,479 ⁽¹⁾	170,419,761	174,818,632
Net Assets at End of Year	\$ 210,597,998	\$ 188,840,850	\$ 174,247,196	\$ 178,934,798	\$ 170,419,761

(1) In the fiscal year ending September 30, 2012, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. In accordance with this statement, beginning net position has been reduced to remove previously capitalized bond issuance costs.

Restatement of Net Position	
Beginning Net Position	\$ 178,934,798
Restatement-bond issuance cost	(949,319)
Beginning Net Position-restated	\$ 177,985,479

TABLE 14A -- GENERAL FUND REVENUES & EXPENDITURES

	For Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
Revenues:					
Taxes	\$ 39,322,980	\$ 37,034,346	\$ 36,631,388	\$ 35,755,336	\$ 34,558,480
Licenses & Permits	3,165,889	2,579,909	2,125,034	1,785,027	2,079,481
Fines and Forfeitures	1,854,462	1,600,258	1,724,216	1,871,106	1,844,046
Intergovernmental	288,464	1,243,927	1,185,754	1,312,944	1,624,434
Charges for Services	5,209,998	4,700,707	4,635,264	4,150,633	4,312,570
Interest on Investments	28,929	22,623	33,325	47,085	74,005
Other	1,042,758	294,442	235,228	230,427	187,970
Total Revenues	\$ 50,913,480	\$ 47,476,212	\$ 46,570,209	\$ 45,152,558	\$ 44,680,986
Expenditures:					
General Government	\$ 10,122,077	\$ 10,682,448	\$ 10,603,067	\$ 9,585,484	\$ 9,461,310
Public Safety	21,874,293	20,707,909	19,973,537	19,496,258	18,580,696
Public Works	12,315,962	11,908,510	11,823,735	11,689,655	11,629,846
Community Services	4,761,994	4,262,619	4,196,108	4,553,807	4,630,744
Capital Outlay	532,944	-	-	-	-
Total Expenditures	\$ 49,607,270	\$ 47,561,486	\$ 46,596,447	\$ 45,325,204	\$ 44,302,596
Excess (Deficit) of Revenues Over Expenditures	\$ 1,306,210	\$ (85,274)	\$ (26,238)	\$ (172,646)	\$ 378,390
Other Financing sources (Uses):					
Proceeds of Debt Issuance					
Operating Transfers In	\$ 2,351,105	\$ 2,250,000	\$ 2,000,000	\$ 2,000,000	\$ 1,024,349
Operating Transfers (Out)	(3,677,084)	(2,158,526)	(6,342,720)	(2,766,825)	(675,513)
Total Other Financing Sources (Uses)	\$ (1,325,979)	\$ 91,474	\$ (4,342,720)	\$ (766,825)	\$ 348,836
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	\$ (19,769)	\$ 6,200	\$ (4,368,958)	\$ (939,471)	\$ 727,226
Fund Balance, Beginning of Year	16,363,119	16,356,919	20,725,877	21,665,348	20,938,122
Fund Balance, End of Year	\$ 16,343,350	\$ 16,363,119	\$ 16,356,919	\$ 20,725,877	\$ 21,665,348

TABLE 15 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On May 7, 1994, the voters of the City approved the imposition of an additional one-half of one percent ($\frac{1}{2}$ of 1%) for property tax reduction and another one-quarter of one percent ($\frac{1}{4}$ of 1%) for the Section 4B Industrial Development Corporation which is pledged to the Sales Tax Revenue Bond issued by the Corporation. The sales tax increase went into effect on October 1, 1994.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2010	\$11,944,243	36.33%	\$ 0.2289	\$ 143
2011	12,892,295	39.29%	0.2420	151
2012	14,205,178	42.66%	0.2602	163
2013	14,598,887	43.78%	0.2613	162
2014	16,127,061	46.97%	0.2804	169

(1) Provided by the City.

(2) Based on population estimates by the City.

The sales tax breakdown for the City is as follows:

4 B Industrial Development Corporation	$\frac{1}{4}\%$
Property Tax Relief	$\frac{1}{2}\%$
City Sales & Use Tax	1%
State Sales & Use Tax	6 $\frac{1}{4}\%$
Total	8%

CAPITAL IMPROVEMENT PROGRAM

The City adopts a multi-year capital improvement plan that addresses all major categories of improvements and addresses all forms of funding. The current plan including FY2015 through FY2019 was adopted by City Council on September 9, 2014, with the first year of the CIP to serve as its Capital Budget for FY2015. The approved CIP includes financing plans that account for all capital funding sources, including current year pay-as-you-go cash funded projects, proceeds from prior years' bond sales, and new funds needed from future bond sales. The CIP includes debt service models for tax supported and revenue supported projects to anticipate and demonstrate the affordability of new bonds within revenue streams from existing property tax rates and water and wastewater rates. Projects are not included in the five year CIP unless financing can be made available through allocation of existing or projected funding sources.

The FY2016 – FY2020 Capital Improvement Plan is currently being formulated with the anticipation of presenting to City Council early Summer 2015.

THE SYSTEM

WATERWORKS SYSTEM

The primary water supply for the City of League City is surface water. This water is obtained from Gulf Coast Water Authority (GCWA). The majority of the water is provided to GCWA from the City of Houston with a very small percentage coming from the actual plant at GCWA. Houston's supply is from the Trinity River watershed basin while GCWA is from the Brazos River watershed.

League City also has ground water to supplement the surface water supply. Due to subsidence agreements with the subsidence district only 10% of the total water supply can be supplemented with ground water.

During fiscal year 2013/2014 the City pumped approximately 3.8 billion gallons of water (combined surface and ground). This water was delivered to approximately 30,327 residences. The estimated population of League City is 96,209.

Existing Water Supply— The City maintains 9 Booster stations throughout the distribution system. These Booster stations are strategically placed to provide the required demand flows throughout the distribution system.

The current water supply from Houston is provided from the Southeast Water Treatment Plant (SEWPP). League City has 22.5 million gallons per day contracted from SEWPP through Gulf Coast Water Authority. In addition, GCWA supplies 2,544 million gallons per day. The total surface water supply volume is 25.044 million plus 5.6 million supplemental from wells.

Highway 3 Booster station is the primary Booster for the entire City. This station receives all of the water from SEWPP and boosts it to various parts of the City.

Elevated Storage— The City has 2 operational elevated storage tanks. Both tanks are 2 million gallon tanks, one located on South Shore Boulevard and the other at Rustic Oaks Subdivision.

The growth of the City has necessitated an additional elevated storage tank to be located near South Highway 96 and South Shore Blvd. This elevated tank will be 2 million gallons.

Ground Storage— Ground storage tanks are located at 9 of the twelve Booster station locations. Two new ground storage tanks are planned in 2015 to increase the volumes stored in the City. The combined storage capacity will be 19.4 million gallons from 13.3 million gallons. The combined elevated and ground will be 23.8 million gallons.

Booster Pumps— Booster pumps are located at the 9 booster stations. The total combined capacity shall be 24,600 gallons per minute, (gpm).

Groundwater— The City has four wells with a combined total of approximately 5.6 million gallons. The average depth of the wells in the area range from 700-800 feet.

League City is in Area 1 of the Houston Galveston subsidence district. The district requirements stipulate that in order to reduce subsidence in the district only 10% of the surface supply can be pumped from ground water.

Distribution System— The City has an array of lines as small as 2 inch up to 42 inch. All transmission lines are 24 inch and larger. Various 12 to 18 inch lines interconnect most major transmission lines. New lines are being planned to create a complete transmission loop around the City.

WASTEWATER SYSTEM

The City's wastewater system consists of various gravity lines from 6 inch to 54 inch, 72 lift stations and 2 treatment plants. The Dallas-Salmon treatment plant was recently expanded from a 7.5 MGD plant to a 12 MGD plant. This plant serves the majority of the City. A smaller plant located on the west side of the interstate serves the balance of the City and is rated at 0.660 MGD. This plant is scheduled to be de-commissioned in 2015. The new Southwest Water Reclamation Facility (SWWRF) is complete and is rated at 4.0 MGD. It serves the far west service areas of the City and will treat water for reuse on public accessible land. Dallas-Salmon is also a plant producing reuse water and is being sold to South Shore Country Club for irrigation of the golf course.

TABLE 16 – CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
Revenues:					
Charges for Services	\$ 29,262,989	\$ 29,830,436	\$ 27,582,569	\$ 30,646,567	\$ 25,731,620
Interest Earned	54,828	120,856	357,077	196,367	214,491
Gain on Sale of Assets	11,392	2,067	636	1,632	17,807
Other Revenues	21,014	23,618	14,172	-	-
Total Revenues	\$ 29,350,223	\$ 29,976,977	\$ 27,954,454	\$ 30,844,566	\$ 25,963,918
Operating Expenses:					
Personnel	\$ 5,526,433	\$ 5,589,894	\$ 5,189,783	\$ 5,363,971	\$ 5,216,754
Utilities	1,615,413	1,245,096	1,081,894	1,533,427	1,352,897
Repairs and Maintenance	1,074,237	1,636,262	1,439,563	1,184,800	1,150,787
Supplies	793,873	1,231,604	2,125,240	994,419	1,025,589
Contractual Services	4,985,492	4,406,481	3,901,606	4,077,368	3,595,665
Gulf Coast Water Authority Debt Service ⁽¹⁾	306,970	307,467	387,424	797,163	758,677
	\$ 14,302,418	\$ 14,416,804	\$ 14,125,510	\$ 13,951,148	\$ 13,100,369
Net Revenue From Operations	\$ 15,047,805	\$ 15,560,173	\$ 13,828,944	\$ 16,893,418	\$ 12,863,549
Impact Fees	6,623,624	4,426,299	2,895,100	2,134,074	2,762,532
Available for Debt Service	\$ 21,671,430	\$ 19,986,472	\$ 16,724,044	\$ 19,027,492	\$ 15,626,081
City's Revenue Debt Service ⁽²⁾	\$ 8,049,764	\$ 8,370,654	\$ 5,298,393	\$ 5,207,772	\$ 5,207,772
Surplus Net Revenue Available ⁽³⁾	\$ 13,621,666	\$ 11,615,818	\$ 11,425,651	\$ 13,819,720	\$ 10,418,309
Water Customers	30,327	29,326	28,554	27,669	27,092
Sewer Customers	28,968	27,992	27,258	26,554	25,508

(1) Contract Revenue Bonds issued by the Gulf Coast Water Authority that are treated as an operating expense of the System.

(2) Revenue Bonds have a prior lien on the net revenues of the Water and Sewer System.

(3) Surplus Net Revenue is available to pay system general obligation debt and contract revenue debt with a surplus revenue pledge.

TABLE 17 – TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

Customer	Type of Industry	Estimated Fiscal Year 2014 Water Usage In Gallons	Estimated % of Total Water Usage
Clear Creek Independent School District	School	86,589,000	2.23%
City of League City	Municipality	46,178,000	1.19%
Tuscan Lakes CAI	Community Association	29,774,000	0.77%
Westover Park	Community Association	29,368,000	0.76%
Mar Bella Community, Inc.	Commercial-Landscaping	23,085,000	0.60%
Fairways @ SSH HOA	Commercial-Landscaping	22,891,000	0.59%
Broadstone Walker Commons	Apartments	22,345,000	0.58%
Amalfi at Tuscan Lakes	Apartments	19,674,000	0.51%
Haven South Shore	Apartments	18,732,000	0.48%
Landmark at Emerson Park	Apartments	17,805,000	0.46%
		<u>316,441,000</u>	<u>5.93%</u>

TABLE 18 - HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Number of Customers	Water Usage (MGD)			Total Usage	Total Water & Sewer Sales
			Average	Peak	Peak		
			Day Usage	Day Usage	Month Usage		
2010	83,560	27,092	8.858	15.853	379.300	3,238.000	\$ 25,731,620
2011	85,300	27,669	10.908	19.038	468.527	3,976.626	30,646,567
2012	87,400	28,554	10.000	15.551	419.484	3,777.256	27,596,741
2013	90,300	29,326	10.500	17.277	412.608	3,385.382	29,854,054
2014	95,500	30,327	10.625	18.025	417.251	3,877.456	29,201,981

(1) Population estimated by the City.

FINANCIAL POLICIES

The financial statements of the City are prepared in conformity with the generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following are the City's governmental fund types:

General Fund. . The General Fund is used to account for all financial transactions which are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

Special Revenue Funds. . Special Revenue Funds are used to account for revenues derived from specific governmental grants or other revenue sources which are legally restricted or designated to finance particular activities of the City. Capital outlays are charged to expenditures in the accounts of these funds and capitalized in the government wide statement, as appropriate.

Debt Service Fund. . The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt of the City except for capital leases which are accounted for in the General Fund. The primary source of revenue for the Debt Service Fund is general property taxes.

Capital Projects Funds. . Capital Projects Funds are used to account for the receipt and expenditure of resources used for acquisition of or improvements to major capital assets. Principal sources of revenues are cash funding, bond sale proceeds, federal grants and interest revenue.

Enterprise Fund. . The Enterprise Fund is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises; where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), federal grants and impact fees.

Internal Service Fund. . The Internal Service Fund is used to account for the financing of goods or services by one department to other departments, on a cost reimbursement basis.

General Budget Policies. . The budget for the City Government shall present a complete financial plan for the ensuing fiscal year. It shall set forth all proposed expenditures for the administration, operation and maintenance of all departments and agencies of the City Government for which appropriations are required to be made or taxes levied by the City. The budget shall also include: (1) the revenues and expenses of the water and sewer system, and such system may be shown in the budget as a self-supporting enterprise; (2) all expenditures for capital projects to be undertaken or executed during the fiscal year; (3) all interest and debt redemption charges during the fiscal year and the actual or estimated operating deficits from prior fiscal years. In addition, the budget shall set forth the anticipated income and other means of financing the total proposed expenditures of the City for the fiscal year.

Basis of Accounting . . .Basis of accounting refers to the time when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statement, regardless of measurement focus applied. Governmental fund types (General, Debt Service, Special Revenue and Capital Projects) are accounted for on a "spending" or "financial resources" measurement focus.

Accordingly, only current assets and current liabilities are included on their balance sheets, and the reported fund balance provides an indication of available spendable or appropriable resources. Operating statements for governmental fund types report increases and decreases in available spendable resources. Proprietary fund types (Enterprise and Internal Service) are accounted for on an "income determination" or "economic resources" measurement focus. Accordingly, all assets and all liabilities are included on their balance sheets, and the reported fund equity provides an indication of the economic net worth of the fund. Operating statements for the Enterprise Fund report increases and decreases in total economic net worth.

The budget process begins in early spring each year with the preparation of the Long Range Financial Forecast. The Long Range Financial Forecast is prepared under the direction of the City Manager and presented to Council. The Long Range Financial Forecast includes all majors funds; General, Utility and Debt Service Funds of the City. Once the Long Range Financial Forecast has been presented to Council, city departments present their budgets to the City Manager for review. The budget is prepared under the direction of the City Manager including the Capital Budget which is based on the first year of the five-year Capital Improvement Plan ("CIP"). The Budget and CIP are then presented to Council for review. At least ten (10) days before the beginning of the fiscal year, the Council must approve the budget and enact the appropriation ordinance. As soon thereafter as possible, the City Council passes the tax levy ordinance and such other ordinances as may be required to make the budget effective.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS

Under Texas law, the City is authorized to invest in (1) bonds of the United States or its agencies and instrumentalities; (2) direct bonds of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage bonds directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other bonds, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) bonds of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent; (6) bonds of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by bonds described in clauses (1) through (5) or in any other manner and amount provided by law for City deposits; (7) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term bonds of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (8) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

The City may invest in such bonds directly or through government investment pools that invest solely in such bonds provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) bonds whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) bonds whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage bonds that have a stated final maturity of greater than 10 years; (4) collateralized mortgage bonds the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and (5) repurchase agreements unless through a secondary source, i.e. an investment pool; and (6) commercial paper unless through a secondary source, i.e. an investment pool.

INVESTMENT POLICIES

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 19 – CURRENT INVESTMENTS

As of March 31, 2015 the City's investable funds were invested in the following categories:

Description	Percent of Total	Book Value	Market Value
Cash	1.41%	\$ 1,864,445	\$ 1,864,445
TexPool	54.56%	72,307,086	72,307,086
TexSTAR	31.55%	41,804,002	41,804,002
Portfolio Investments	7.70%	10,210,272	10,174,816
Certificates of Deposits	4.78%	6,333,841	6,333,841
	100.00%	\$ 132,519,646	\$ 132,484,190

TAX MATTERS

TAX EXEMPTION

The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to holders of the Certificates of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES

The initial public offering price of the Certificates maturing in the years 2027 through 2035 (the "Discount Certificates") is less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under "TAX EXEMPTION." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of the Certificates maturing in the years 2016 through 2025 (the "Premium Certificates") is greater than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

CONTINUING DISCLOSURE OF INFORMATION

In the respective Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB through EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 19 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2015.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB through EMMA of the change.

MATERIAL NOTICES

The City will also provide notices of certain events to the MSRB through EMMA, of any of the following events with respect to the Bonds in a timely manner, and not more than 10 business days after occurrence of the event. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices of determination with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond or certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a

definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in the immediately preceding paragraph (14) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. Neither the Bonds nor the Bond Ordinance make any provision for debt service reserves, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION FROM MSRB

The City has agreed to provide the foregoing information only to the MSRB. The MSRB has made the information available to the public without charge through EMMA at www.emma.msrb.org.

AMENDMENTS

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates, as applicable. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates, as applicable. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 for the last five years except as described in this paragraph. The annual financial information and operating data of the City for fiscal year 2011 was not timely filed. The City has subsequently filed the missing information, including a notice of late filing, and has put certain administrative procedures in place to help ensure timely compliance with its annual obligations in the future.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding general obligation debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, A Division of McGraw-Hill Companies, Inc. ("S&P"), without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by (either or both) of such rating companies (company), if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

First Southwest Company, LLC, is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. First Southwest Company has agreed, in its Financial Advisory contract, not to bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the City accepted the bid of Fidelity Capital Markets, (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the inside front cover of this Official Statement at a purchase price of 100.00% of the principal amount thereof plus a premium of \$775,198.65. The Initial Purchaser will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Initial Purchaser(s).

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Initial Purchaser.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City is located in the north central part of Galveston County and part of Harris County five miles south of the city limits of Houston, Texas. The City was incorporated December 9, 1961 and adopted its Home Rule Charter March 27, 1962. The City provides basic municipal services to its citizens including fire and police protection, ambulance service, water, sanitary sewer and garbage services, library, parks and recreational facilities.

ECONOMICS

The City is located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and approximately 10 miles from the petrochemical refineries located in Texas City in Galveston County. National Aeronautics and Space Administration's ("NASA"), Johnson Space Center is located just north of the City in Harris County. In addition, residents find employment in the numerous retail and service establishments located in the City and surrounding area.

BUILDING PERMITS

Fiscal Year Ended 9/30 ⁽¹⁾	Residential Gross Value	Commercial Gross Value	Total Gross Value
2008	\$ 152,247,419	\$ 191,206,441	\$ 343,453,860
2009	117,751,909	39,936,940	157,688,849
2010	145,502,081	11,486,880	156,988,961
2011	129,701,416	15,256,600	144,958,016
2012	135,708,582	22,958,177	158,666,759
2013	195,890,814	41,947,205	237,838,019
2014	188,426,865	93,709,677	282,136,542

(1) Provided by the City

EDUCATION

The City is located primarily within the Clear Creek Independent School District which consists of 26 elementary schools, 10 intermediate schools, and 7 high schools.

Higher education institutions serve the local area, including the University of Houston-Clear Lake, located three miles from the City. The University of Houston-Clear Lake, constructed on a 524-acre site, has an 8,200 student enrollment and includes four schools: The School of Human Sciences and Humanities, the School of Business, the School of Education, and the School of Sciences and Computer Engineering. These four schools offer undergraduate degrees in 39 fields of study, master's degrees in 45 fields of study and one doctoral degree.

The College of the Mainland, a junior college located on a 200-acre campus in Texas City, is less than ten miles from the City near the intersection of FM1764 and State Highway 3.

HEALTHCARE AND FACILITIES

The greater Houston-Galveston region is noted for the availability of exceptional hospital and medical care. The League City - Clear Lake area is served by two modern hospitals with Life Flight capability. The Clear Lake Regional Medical Center represents over 40 medical specialties and associated services including open heart surgery, Level IIb Neonatal Intensive Care Unit and comprehensive cardiovascular services.

TRANSPORTATION

The City has convenient access to several interstate and major US highways. Interstate Highway 45 passes directly through the City giving access to other transportation routes such as Interstate Highway 10, US Highways 59 and 290, and State Highways 288, 225 and 146. The area's trucking industry is well-integrated with the Port of Houston, Houston Intercontinental Airport, Hobby Airport, Ellington Field, and the mainline railroads serving the area. Each draws from the others while supporting the others. The Houston Airport System is 9th largest in the United States and 18th largest in the world. The Houston Bush Intercontinental Airport ranks 11th in the U.S. for international passengers. The City is served by Union Pacific Railroad who operates one main line through the City with daily service.

JOHNSON SPACE CENTER

The Johnson Space Center (JSC) of NASA, which was responsible for NASA's prior space shuttle program and remains the central control point for the space station project, is an important part of the Clear Lake City area economy. The JSC Civil Service workforce consists of about 3000 employees, the majority of whom are professional engineers and scientists. Of these, approximately 110 are astronauts. The Johnson Space Center is an attraction to over 50 private companies who act as subcontractors to provide contract personnel to JSC.

SPACE CENTER HOUSTON

The \$70 million Space Center Houston, a visitor's center designed by Walt Disney Imagineering, opened in the fall of 1992. It is a project of the non-profit Manned Space Flight Education Foundation, Inc. in collaboration with the NASA space center. The project is a "hands-on" experience center presenting the inspirational story of human space exploration and behind-the-scenes tours of the space center complex.

MAJOR EMPLOYERS IN LEAGUE CITY

Employer	Nature of Business	Number of Employees
Clear Creek Independent School District	School District	5,788
American National Insurance	Insurance	733
H.E.B.	Supermarket	623
City of League City	Government	560
Krogers	Supermarket	374
Walmart	Retail	311
Ineos Olefins & Polymers	Manufacturer	250
Devereaux Texas Treatment Network	Hospital	213
Harborview Care Center	Assisted Living Center	145
Home Depot	Supermarket	140

Source: the City.

THE COUNTY

The City lies primarily within Galveston County (the "County") which is located on the upper Texas coast of the Gulf of Mexico. The County comprises a land area of 430 square miles, including Galveston Island, the Mainland and Bolivar Peninsula. The official establishment of Galveston County dates back to May 15, 1838, when Sam Houston, the President of the Republic of Texas, approved an article passed by the Congress, establishing the "County of Galveston." The 2010 census population was 291,309 an increase of 16.45% over 2000.

Galveston County has a diversified economy based on manufacturing, oil and gas production, shipping, agriculture, commercial fishing and tourism. The Galveston County Mainland area is the center of one of the most important industrial concentrations on the Gulf Coast of Texas. Major industries located at Texas City and La Marque include BP, Marathon-Ashland Petroleum, Valero Refining, Sterling Chemical, Dow Chemicals, International Specialty Products, and others.

The County is home to the world's largest dog racing complex. The site consists of 100 acres and includes a clubhouse with full-service dining. The track seats 8,100 people and has a total capacity of 15,200. Construction of the \$40-million facility was completed in the fall of 1992 and races began immediately.

EMPLOYMENT STATISTICS**League City**

Year	Labor Force	Total	Unemployment	Rate
2009	38,301	35,884	2,417	6.31%
2010	46,343	43,204	3,139	6.77%
2011	48,030	44,749	3,281	6.83%
2012	49,376	46,606	2,770	5.61%
2013	51,115	48,505	2,610	5.11%
2014	52,156	50,050	2,106	4.04%
2015 ⁽¹⁾	52,310	50,410	1,899	3.63%

(1) As of March 31, 2015

Source: Texas Workforce Commission

Galveston County

Year	Labor Force	Total	Unemployment	Rate
2009	140,480	128,942	11,538	8.21%
2010	147,321	133,867	13,454	9.13%
2011	149,737	136,532	13,205	8.82%
2012	153,242	141,557	11,685	7.63%
2013	156,333	145,662	10,671	6.83%
2014	159,108	150,302	8,806	5.53%
2015 ⁽¹⁾	159,160	151,385	7,775	4.89%

(1) As of March 31, 2015

Source: Texas Workforce Commission

APPENDIX B

**EXCERPTS FROM THE
CITY OF LEAGUE CITY, TEXAS
ANNUAL FINANCIAL REPORT**

For the Year Ended September 30, 2014

The information contained in this Appendix consists of excerpts from the City of League City, Texas Annual Financial Report for the Year Ended September 30, 2014, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
City Council Members of the
City of League City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of League City, Texas (the City), as of and for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error, in making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Honorable Mayor,
City Council Members of the
City of League City, Texas

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and changes in Fund Balances – Budget and Actual – General Fund and schedules of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion **or provide any assurance.**

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

To the Honorable Mayor,
City Council Members of the
City of City of League City, Texas

The combining and individual nonmajor fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

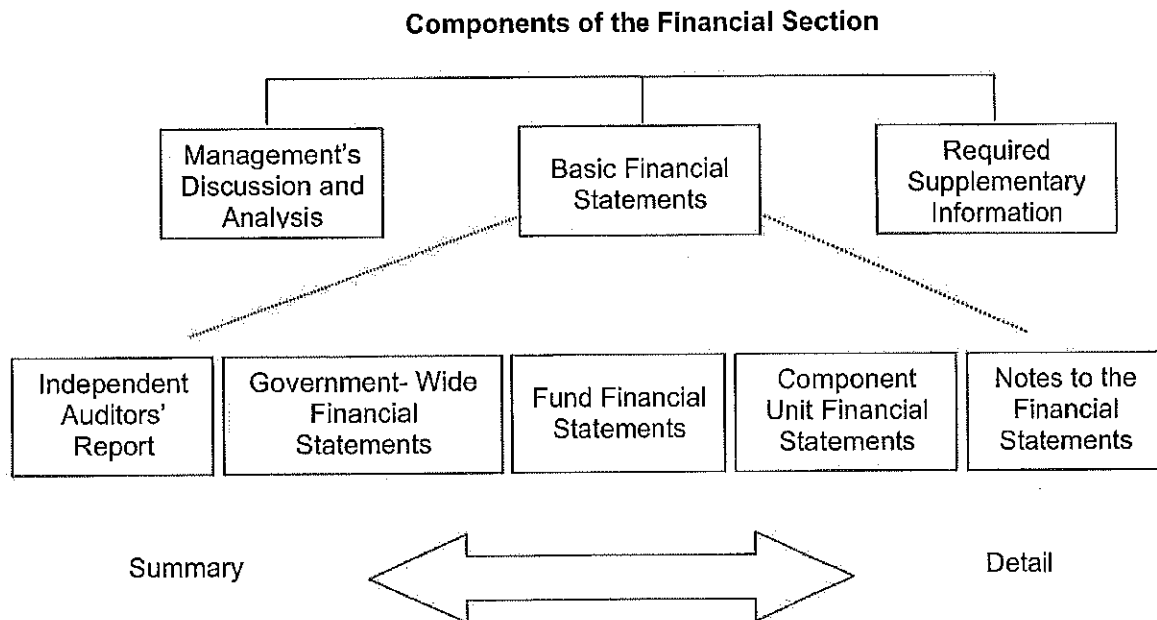
WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 23, 2015

Management's Discussion and Analysis (Unaudited)

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of League City (the City) for the year ending September 30, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Certain reclassifications of prior year balances were made to align with current year presentation. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City.

These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, and using the full accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* include the City's tax-supported services, police and fire protection (public safety), streets, drainage (public works), community services, and general administrative services (general government), and interest payments on the City's tax-supported debt. Property tax, sales tax, franchise taxes, municipal court fines, and permit fees fund most of these activities.
2. *Business-Type Activities* include the City's water and wastewater services, as well as interest payments on debt issued for water and wastewater improvements. Charges for services cover all or most of the cost of these activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate industrial development corporation and a legally separate volunteer fire department for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The tax increment reinvestment zones and public improvement districts, although also legally separate, function for all practical purposes as a department of the City and, therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The City uses two fund types - governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 39 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and certificates of obligation 2012 fund, which are considered to be major funds for reporting purposes. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report.

The City adopts an annual appropriated budget for its general fund, debt service fund and 13 of the special revenue funds. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment operations. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses internal service funds to account for its motor pool services, employee insurance, and employee benefits. These internal service funds have been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of funding progress for the Texas Municipal Retirement System and other post-employment benefits for healthcare. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities by \$398,631,498 as of September 30, 2014 for the primary government. This compares with \$361,040,627 from the prior fiscal year. The largest portion of the City's net position, 86%, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 69,672,469	\$ 87,280,385	\$ 82,263,160	\$ 94,307,340	\$ 151,935,629	\$ 181,587,725
Capital assets, net	278,034,820	234,756,075	257,157,886	236,053,131	535,192,706	470,809,206
Total Assets	\$ 347,707,289	\$ 322,036,460	\$ 339,421,046	\$ 330,360,471	\$ 687,128,335	\$ 652,396,931
Deferred charges on refunding	1,169,423	1,215,965	508,323	562,162	1,675,746	1,778,127
Total deferred outflow of resources	1,169,423	1,215,965	508,323	562,162	1,675,746	1,778,127
Long-term liabilities	124,817,009	126,694,674	144,672,228	151,927,775	269,489,237	278,622,449
Other liabilities	13,461,705	7,716,901	7,221,641	6,795,081	20,683,346	14,511,982
Total liabilities	138,278,714	134,411,575	151,893,869	158,722,856	290,172,583	293,134,431
Net Position:						
Net investment in capital assets	172,449,008	158,272,342	171,411,024	143,851,297	343,860,032	302,123,639
Restricted	13,276,159	11,660,329	8,708,139	8,728,270	21,984,298	20,388,599
Unrestricted	24,872,831	18,908,179	7,914,337	19,620,210	32,787,168	38,528,389
Total net position	\$ 210,597,998	\$ 188,840,850	\$ 188,033,500	\$ 172,199,777	\$ 398,631,498	\$ 361,040,627

A portion of the primary government's net position, \$21,984,298, or 5.5%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$32,787,168, or 8.2%, may be used to meet the City's ongoing obligation to citizens and creditors.

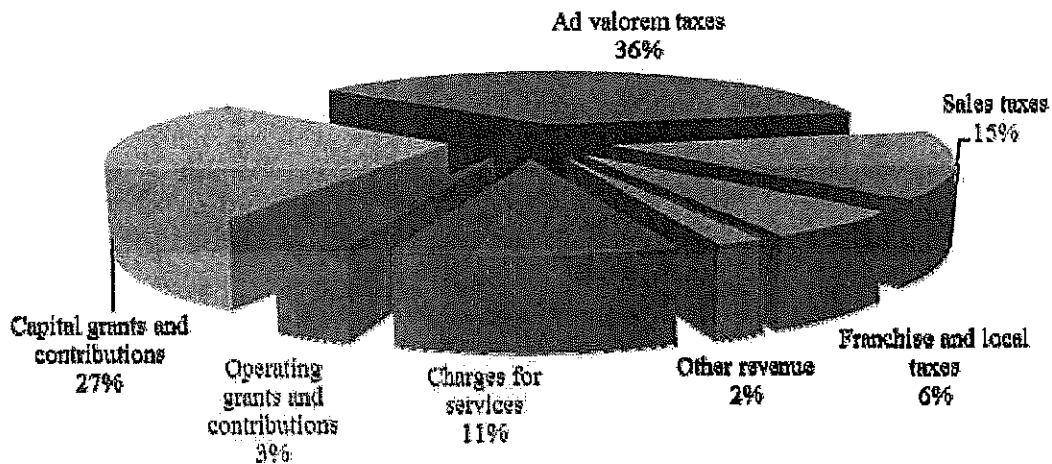
The City's total net position increased by \$37,590,871 during the current fiscal year. This increase included \$39,817,941 in capital grants and contributions.

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 10,432,512	\$ 10,104,883	\$ 29,284,003	\$ 29,854,054	\$ 39,716,515	\$ 39,958,937
Operating grants and contributions	3,084,319	3,955,289	-	-	3,084,319	3,955,289
Capital grants and contributions	26,277,018	16,598,735	13,540,923	9,183,573	39,817,941	25,782,308
General revenues:						
Ad valorem taxes	34,683,278	33,655,410	-	-	34,683,278	33,655,410
Sales taxes	13,823,196	12,513,332	-	-	13,823,196	12,513,332
Franchise and local taxes	5,725,179	5,416,273	-	-	5,725,179	5,416,273
Investment earnings	51,719	122,325	54,828	120,858	108,547	243,181
Other revenue	1,746,482	2,272,354	-	-	1,746,482	2,272,354
Total revenues	95,803,703	84,838,601	42,879,754	39,158,483	138,683,457	123,797,084
Expenses						
General government	13,318,257	14,286,527	-	-	13,318,257	14,286,527
Public safety	24,139,580	22,777,502	-	-	24,139,580	22,777,502
Public works	26,756,596	23,051,561	-	-	26,756,596	23,051,561
Community services	8,072,245	7,277,115	-	-	8,072,245	7,277,115
Interest and fiscal charges	4,376,432	4,902,242	-	-	4,376,432	4,902,242
Water and sewer	-	-	24,440,868	24,798,849	24,440,868	24,798,849
Total expenses	76,663,110	72,294,947	24,440,868	24,798,849	101,103,978	97,093,796
Excess (deficiency) of revenues over (under) expenses	19,140,593	12,343,654	18,438,886	14,359,634	37,579,479	26,703,288
Transfers in/(out)	2,616,555	2,250,000	(2,616,555)	(2,250,000)	-	-
Gain (loss) on sale of capital assets	-	-	11,392	2,067	11,392	2,067
Changes in net position	21,757,148	14,593,654	15,833,723	12,111,701	37,590,871	28,705,355
Beginning net position	188,840,850	174,247,196	172,199,777	160,088,076	361,040,627	334,335,272
Ending net position	\$ 210,597,998	\$ 188,840,850	\$ 188,033,500	\$ 172,199,777	\$ 398,631,498	\$ 361,040,627

Governmental Activities - Revenues

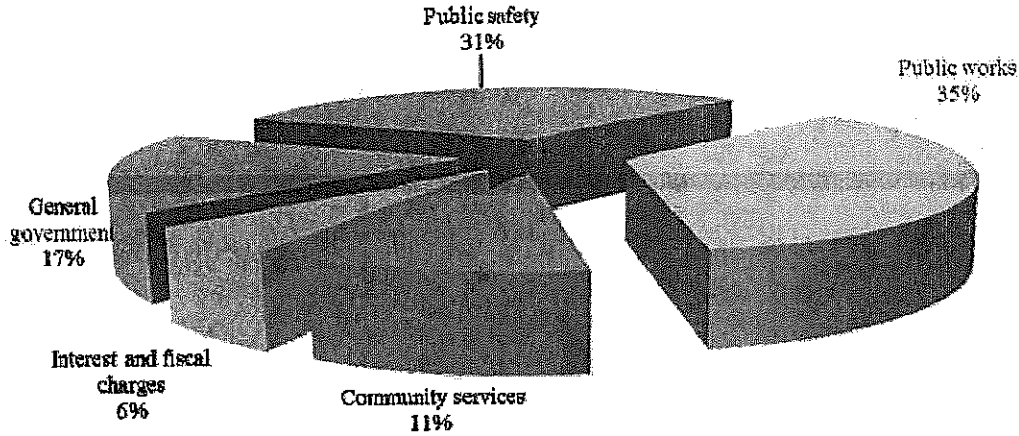


For the year ended September 30, 2014, total revenues from governmental activities were \$95,803,703, compared with \$84,638,601 in the prior year. This \$11,165,102 increase is due to increases in capital grants and contributions of \$9,678,283 coupled with increases in ad valorem taxes \$1,007,868, sales taxes \$1,309,864, franchise and local taxes \$308,906, and charges for services \$327,629. These gains were offset somewhat by declines in operating grants and contributions (\$870,970), investment earnings (\$70,606) and other revenue (\$525,872).

While City Council adopted property tax reduction through increased local option homestead exemption, ad valorem revenue continues to increase through expanded residential and commercial development, along with overall increases in property values. Sales tax revenue increased as a result of a boost in retail sales in the area due to continued improvement in economic conditions and growth in retail development in the City.

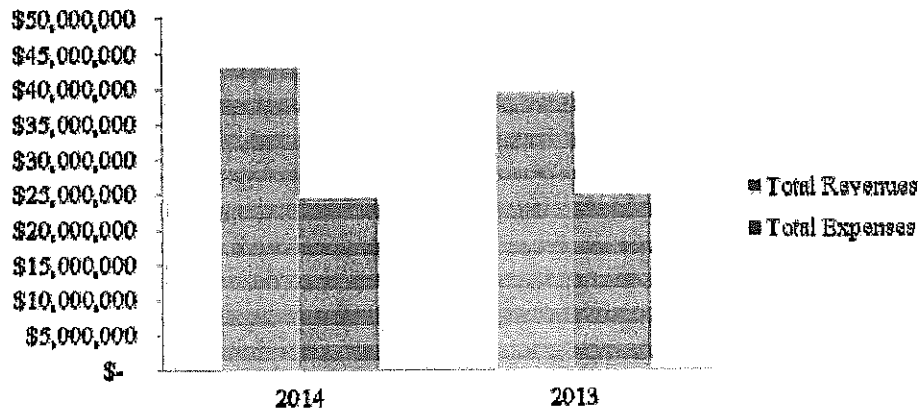
Capital grants and contributions increased for governmental activities by \$9,678,283 due to an increase in contributions from developers.

Governmental Activities - Expenses



Governmental expenses increased by \$4,368,163. This increase is primarily due to increased cost in public safety, with the addition of 10 new officers in the department, increased spending in public works related to street, sidewalk and solid waste activities, and increased costs in community services related to the operation of new park facilities.

Business Type Activities - Revenues and Expenses



Overall, business-type activity revenues increased by \$3,721,271 from the prior period, including a \$4,357,350 increase in capital grants due to an increase in contributions of infrastructure from developers and a decrease in charges for service of \$570,051. The decrease in service revenue is due to a decline in water sales for the year ended September 30, 2014. While the number of customers increased by over 3%, total consumption declined during a temperate year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$52,449,153. This balance is restricted, assigned and unassigned as follows:

Nonspendable	\$ 20,074
Restricted for	
Debt service	2,861,859
Capital projects	11,335,672
Municipal court	49,529
Hotel occupancy tax	685,116
Emergency management	180,350
Public access channel	813,488
Tax increment reinvestment zone	6,747,296
Public improvement district	1,927,473
Assigned to	
Operating reserve	13,138,608
Special revenue funds	2,683,406
Capital projects funds	9,253,281
Unassigned	2,753,001
	<u>\$ 52,449,153</u>

There was a decrease in the combined fund balance of all governmental funds of \$23,383,432 from the prior year. This is due to the \$24,725,039 decrease in fund balance in the Certificates of Obligation 2012 fund as capital projects were constructed with these funds. The general fund balance decreased by \$19,769 and the debt service fund balance decreased of \$212,502. Meanwhile, the nonmajor governmental funds increased the total fund balance by \$1,573,878. This was primarily due to an increase in fund balance in the miscellaneous capital project fund.

The general fund is the chief operating fund of the City. At the end of the current year, total fund balance reached \$16,343,350. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 32.9% of general fund operating expenditures. At year end, the City's 90 day operating reserve was \$13,138,608, representing 26.5% of general fund operating expenditures.

Proprietary Funds – The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The amended budget included a planned decrease in General Fund balance of \$3,185,544. The final fund balance for the year decreased \$19,769. Actual revenues exceeded the amended budget by \$1,631,970 spread across various revenue lines. Actual sales tax revenue exceeded the amended budget amount by \$523,196, building permits fees exceeded budget by \$661,039, and fines and forfeitures exceeded budget by \$284,462. The remaining revenue lines showed positive budget variances, with the exception of ad valorem taxes, franchise fees, charges for services and investment earnings.

Actual expenditures were under the amended budget by \$1,516,284. This positive variance from the amended budget was primarily a result savings within the personnel category due to vacant positions during the year and departments displaying restraint and good stewardship in purchasing supplies and equipment.

CAPITAL ASSETS

At the end of the current year, the City's governmental and business-type activities had invested \$535,192,706 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$64,383,500 from prior year.

Major capital asset events during the current year include the following:

- Developer contributions of infrastructure in the amount of \$21,319,896 for governmental activities and \$13,540,923 for business-type activities

- Public Safety Facility and Jail construction in the amount of \$18,468,960

- South Highway 3 Water Booster Station construction in the amount of \$9,562,078

- Calder Road 39-inch waterline rehabilitation construction in the amount of \$2,689,156

- Hometown Heroes Park construction in the amount of \$2,132,378

- Emergency Medical Services Westside Station construction in the amount of \$2,100,066

- Brookport Drive Extension construction in the amount of \$1,813,347

- South Shore Harbour Pump Station Expansion construction in the amount of \$1,511,768

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds and certificates of obligation outstanding of \$250,840,000. Of this amount, \$48,485,000 was general obligation debt, \$73,090,000 was revenue bond debt, \$127,625,000 was certificates of obligation, and contract revenue bonds accounted for the remaining \$1,640,000. Current underlying ratings on both General Obligation and Water and Sewer System Revenue Bonds are Aa2 and AA from Moody's Investors Service and Standard and Poor's, respectively.

More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

League City, like the region in which it is located, has been characterized by steady long-term growth, resilient economic performance, and a climate and geography considered attractive to families and businesses. In recent years, the City has experienced growth significantly above its historical trend that coincided with the national housing boom and regional energy boom. In the late 2008, the "Great Recession" occurred, slowing growth in the region and in League City as well. In spite of job losses at NASA's Johnson Space Center that occurred between 2010 and 2013, the City experienced an increase in its growth rate from 2.3% in 2010 to 3.8% in 2014.

While the energy industry has been hit hard by the precipitous drop in oil prices, the Houston economy as a whole, and League City specifically, seem poised to weather the storm. With other sectors of the economy continuing to recover, and energy jobs being replaced, in part, by a construction boom, the Houston area expects to continue to do well. Meanwhile, League City continues to see new construction growth in all types of property. Sales tax continues to grow at record levels, indicating a strong local economy.

The City's financial planning and reporting processes to monitor the impact of the economy on major revenues have continued into fiscal year 2015. Sales taxes continue to be systematically compared with water customers, energy employment, local business conditions, and growth in the local retail base to better understand current trends in this volatile revenue source. The City continues to plan long-term. A five year operating forecast, Long Range Financial Forecast (LRFF), is prepared annually measuring the impact of economic change and program demands on the operating budget. The LRFF also includes a study of debt capacity using conservative growth and interest rate assumptions that is used to provide a financing plan for the five year capital improvement plan.

To date, revenue and expenditure trends are tracking closely with budget assumptions. Major revenue sources are generally on budget and expenditures appear to be within budget.

CONTACTING FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to the Office of the Finance Director, 300 West Walker, League City, TX, 77573, telephone 281-554-1368, or for general City information, visit the City's website at www.leaguecity.com.

BASIC FINANCIAL STATEMENTS

**CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and equity in pooled cash	\$ 57,394,045	\$ 4,384,440	\$ 61,778,485	\$ 6,209,133
Investments	4,522,586	1,610,375	6,132,961	-
Receivables, net	7,712,526	4,858,305	12,570,831	539,784
Restricted cash and cash equivalents	-	65,183,821	65,183,821	-
Restricted investments	-	6,037,786	6,037,786	-
Inventories	21,306	190,365	211,671	-
Prepaid items	20,074	-	20,074	-
Internal balances	1,932	(1,932)	-	-
	<u>69,672,469</u>	<u>82,263,160</u>	<u>151,935,629</u>	<u>6,748,917</u>
Capital assets				
Non-depreciable	58,847,051	42,710,807	101,557,858	-
Net depreciable capital assets	219,187,769	214,447,079	433,634,848	-
Total capital assets	<u>278,034,820</u>	<u>257,157,886</u>	<u>535,192,706</u>	<u>-</u>
Total assets	<u>347,707,289</u>	<u>339,421,046</u>	<u>687,128,335</u>	<u>6,748,917</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	1,169,423	506,323	1,675,746	-
Total deferred outflows of resources	<u>1,169,423</u>	<u>506,323</u>	<u>1,675,748</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>348,876,712</u>	<u>339,927,369</u>	<u>688,804,081</u>	<u>6,748,917</u>
LIABILITIES				
Accounts payable and accrued liabilities	12,876,674	5,708,730	18,585,404	729,929
Customer deposits	14,049	757,199	771,248	-
Accrued interest payable	570,982	755,712	1,326,694	-
	<u>13,461,705</u>	<u>7,221,641</u>	<u>20,683,346</u>	<u>729,929</u>
Noncurrent liabilities				
Due within one year	10,334,244	7,044,375	17,378,619	-
Due in more than a year	114,482,765	137,627,853	252,110,618	-
Total noncurrent liabilities	<u>124,817,009</u>	<u>144,672,228</u>	<u>269,489,237</u>	<u>-</u>
Total liabilities	<u>138,278,714</u>	<u>151,893,869</u>	<u>290,172,583</u>	<u>729,929</u>
NET POSITION				
Net investment in capital assets	172,449,008	171,411,024	343,860,032	-
Restricted for				
Debt service	2,872,907	8,708,139	11,581,046	-
Municipal court	49,529	-	49,529	-
Hotel occupancy tax	685,116	-	685,116	-
Emergency management	180,350	-	180,350	-
Public access channel	813,488	-	813,488	-
Tax increment reinvestment	6,747,296	-	6,747,296	-
Public improvement district	1,927,473	-	1,927,473	-
Unrestricted	<u>24,872,831</u>	<u>7,914,337</u>	<u>32,787,168</u>	<u>6,018,988</u>
Total net position	<u>\$ 210,597,998</u>	<u>\$ 188,033,500</u>	<u>\$ 398,631,498</u>	<u>\$ 6,018,988</u>

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF LEAGUE CITY, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government	\$ 13,318,257	\$ 5,562,884	\$ 48,908	\$ -
Public safety	24,139,580	1,695,460	582,787	-
Public works	26,756,596	2,677,025	479,900	26,277,018
Community services	8,072,245	497,143	1,972,724	-
Interest and fiscal agent fees	4,376,432	-	-	-
Total governmental activities	76,663,110	10,432,512	3,084,319	26,277,018
Business-type activities				
Water and sewer	24,440,868	29,284,003	-	13,540,923
Total business-type activities	24,440,868	29,284,003	-	13,540,923
Total primary government	101,103,978	39,716,515	3,084,319	39,817,941
COMPONENT UNITS				
Governmental activities	4,012,807	-	176,055	-
Total component units	\$ 4,012,807	\$ -	\$ 176,055	\$ -

GENERAL REVENUES

Ad valorem taxes
Sales taxes
Franchise and local taxes
Investment earnings
Other revenues
Gain on disposal of capital assets
Transfers
Total general revenues and transfers
Change in net position
Beginning net position
Ending net position

The Notes to the Basic Financial Statements
are an integral part of these statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (7,706,465)	\$ -	\$ (7,706,465)	\$ -
(21,861,333)	-	(21,861,333)	-
2,677,347	-	2,677,347	-
(5,602,378)	-	(5,602,378)	-
(4,376,432)	-	(4,376,432)	-
(36,869,261)	-	(36,869,261)	-
-	18,384,058	18,384,058	-
-	18,384,058	18,384,058	-
(36,869,261)	18,384,058	(18,485,203)	-
-	-	-	(3,836,752)
-	-	-	(3,836,752)
34,663,278	-	34,663,278	-
13,823,196	-	13,823,196	2,303,866
5,725,179	-	5,725,179	-
51,719	54,828	106,547	5,573
1,746,482	-	1,746,482	-
-	11,392	11,392	-
2,616,555	(2,616,555)	-	-
58,626,409	(2,550,335)	56,076,074	2,309,439
21,757,148	15,833,723	37,590,871	(1,527,313)
188,840,850	172,199,777	361,040,627	7,546,301
\$ 210,597,998	\$ 188,033,500	\$ 398,631,498	\$ 6,018,988

**CITY OF LEAGUE CITY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	General Fund	Debt Service	Certificates of Obligation 2012	Nonmajor Governmental	Total Governmental Funds
ASSETS					
Cash and equity in pooled cash	\$ 10,836,447	\$ 2,695,492	\$ 12,476,561	\$ 29,403,240	\$ 55,411,740
Investments	4,068,630	250,000	-	203,956	4,522,586
Receivables, net	6,368,536	475,302	-	870,688	7,712,526
Due from other funds	508,860	-	-	22,714	531,574
Prepaid items	20,074	-	-	-	20,074
Total assets	\$ 21,800,547	\$ 3,420,794	\$ 12,476,561	\$ 30,500,598	\$ 68,198,500
LIABILITIES					
Accounts payable and accrued liabilities	\$ 3,469,077	\$ 76,188	\$ 7,614,773	\$ 1,639,142	\$ 12,799,180
Customer deposits	14,049	-	-	-	14,049
Due to other funds	-	22,714	-	456,739	479,453
Total liabilities	3,483,126	98,902	7,614,773	2,095,881	13,292,682
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - court fines and warrants	587,097	-	-	-	587,097
Unavailable revenue - refuse	581,588	-	-	-	581,588
Unavailable revenue - property taxes	805,386	460,033	-	3,016	1,268,435
Unavailable revenue - special assessments	-	-	-	19,545	19,545
Total deferred inflows of resources	1,974,071	460,033	-	22,561	2,456,665
FUND BALANCES					
Nonspendable					
Prepaid items	20,074	-	-	-	20,074
Restricted for					
Debt service	-	2,861,859	-	-	2,861,859
Capital projects	-	-	4,861,788	6,473,884	11,335,672
Municipal court	-	-	-	49,529	49,529
Hotel occupancy tax	-	-	-	685,116	685,116
Emergency management	-	-	-	180,350	180,350
Public access channel	-	-	-	813,488	813,488
Tax increment reinvestment zone	-	-	-	6,747,296	6,747,296
Public improvement district	-	-	-	1,927,473	1,927,473
Assigned to					
Operating reserve	13,138,608	-	-	-	13,138,608
Special revenue funds	-	-	-	2,683,406	2,683,406
Capital project funds	-	-	-	9,253,281	9,253,281
Unassigned	3,184,668	-	-	(431,667)	2,753,001
Total fund balances	16,343,350	2,861,859	4,861,788	28,382,156	52,449,153
Total liabilities, deferred inflows of resources, and fund balances	\$ 21,800,547	\$ 3,420,794	\$ 12,476,561	\$ 30,500,598	\$ 68,198,500

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF LEAGUE CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

Total fund balances - governmental funds **\$ 52,449,153**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.

Capital assets - non depreciable	58,847,051	
Capital assets - depreciable	<u>213,784,684</u>	
		272,631,735

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.

2,456,665

Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.

7,279,013

Some liabilities, including bonds payable as well as deferred outflows of resources, are not reported in the governmental funds.

Accrued interest	(570,982)	
Deferred charge on refunding	1,169,423	
Non-current liabilities due in one year	(10,334,244)	
Non-current liabilities due in more than one year	<u>(114,482,765)</u>	
		<u>(124,218,568)</u>

Net position of governmental activities **\$ 210,597,998**

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Debt Service	Certificates of Obligation 2012	Nonmajor Governmental	Total Governmental Funds
REVENUES					
Ad valorem taxes	\$ 20,416,091	\$ 11,838,049	\$ -	\$ 2,416,854	\$ 34,670,994
Sales taxes	13,823,196	-	-	-	13,823,196
Franchise and local taxes	4,902,144	-	-	220,071	5,122,215
Other taxes	181,549	-	-	421,415	602,964
Licenses and permits	3,165,889	-	-	-	3,165,889
Fines and forfeitures	1,854,462	-	-	157,673	2,012,135
Charges for services	5,209,998	-	-	296,107	5,506,105
Other revenue	1,042,758	-	-	1,310,650	2,353,408
Contributions	-	788,024	-	4,129,514	4,915,538
Assessments	-	-	-	2,216,155	2,216,155
Investment earnings	28,929	3,233	7,752	11,112	51,026
Intergovernmental	288,464	-	-	474,562	763,026
Total revenues	50,913,480	12,627,306	7,752	11,654,113	75,202,651
EXPENDITURES					
Current					
General government	10,122,077	2,412,437	-	496,317	13,030,831
Public safety	21,874,293	-	-	154,933	22,029,226
Public works	12,315,962	-	-	8,098,601	20,414,563
Community services	4,761,994	-	-	1,168,143	5,930,137
Capital outlay	532,944	-	24,732,791	6,741,114	32,006,849
Debt service					
Principal	-	6,640,954	-	1,815,000	8,455,954
Interest and fiscal charges	-	3,786,417	-	938,661	4,725,078
Total expenditures	49,607,270	12,839,808	24,732,791	19,412,769	106,592,638
Excess (deficiency) of revenues over (under) expenditures	1,306,210	(212,502)	(24,725,039)	(7,758,656)	(31,389,987)
OTHER FINANCING SOURCES (USES)					
Bond issuances	-	-	-	5,390,000	5,390,000
Transfers in	2,351,105	-	-	4,014,564	6,365,689
Transfers (out)	(3,677,084)	-	-	(72,050)	(3,749,134)
Total other financing sources (uses)	(1,325,979)	-	-	9,332,534	8,006,555
Net change in fund balances	(19,769)	(212,502)	(24,725,039)	1,573,878	(23,383,432)
FUND BALANCES, BEGINNING OF YEAR	16,363,119	3,074,361	29,586,827	26,808,278	75,832,585
FUND BALANCES, END OF YEAR	\$ 16,343,350	\$ 2,861,859	\$ 4,861,788	\$ 28,382,156	\$ 52,449,153

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF LEAGUE CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Net changes in fund balances - Total governmental funds **\$ (23,383,432)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(9,981,515)
Capital outlay	32,006,849

Capital contributions by outside entities are not recorded in governmental funds as the contributions do not represent current resources.	21,319,896
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Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain (loss) on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.	(319,163)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	240,463
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The issuance of long-term debt (e.g. bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Bond issuances	(6,350,000)
Principal repayments	8,455,954
Amortization of bond premiums	384,140
Amortization of deferred charges on refunding	(46,542)
Accrued interest	11,048
Compensated absences	(217,048)
Net other post employment benefits obligation	(182,179)
Net pension obligation	(213,202)

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and employee insurance, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.

Change in net position of governmental activities	\$ 21,757,148
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**CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014**

	Business-Type Activities Water and Wastewater	Governmental Activities Internal Service
ASSETS		
Current assets		
Cash and equity in pooled cash	\$ 4,384,440	\$ 1,982,305
Investments	1,610,375	-
Receivables, net	4,858,305	-
Inventories	190,365	21,306
Restricted cash and cash equivalents		
Customer deposits	757,199	-
Capital projects	55,718,483	-
Debt service	8,708,139	-
Restricted investments		
Capital projects	6,037,786	-
Total current assets	<u>82,265,092</u>	<u>2,003,611</u>
Noncurrent assets		
Capital assets		
Non-depreciable	42,710,807	-
Net depreciable capital assets	<u>214,447,079</u>	<u>5,403,085</u>
Total capital assets, net of accumulated depreciation	<u>257,157,886</u>	<u>5,403,085</u>
Total noncurrent assets	<u>257,157,886</u>	<u>5,403,085</u>
Total assets	<u>339,422,978</u>	<u>7,406,696</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	506,323	-
Total deferred outflows of resources	<u>\$ 506,323</u>	<u>\$ -</u>

The Notes to the Basic Financial Statements
are an integral part of these statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014
(CONTINUED)

	<u>Business-Type Activities Water and Wastewater</u>	<u>Governmental Activities Internal Service</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,708,730	\$ 77,494
Accrued interest	755,712	-
Due to other funds	1,932	50,189
Customer deposits	757,199	-
Compensated absences	321,313	-
Bonds, notes, and loans payable	6,723,062	-
Total current liabilities	<u>14,267,948</u>	<u>127,683</u>
Noncurrent liabilities		
Compensated absences	118,843	-
Net other post employment benefits obligation	135,879	-
Net pension obligation	337,660	-
Bonds, notes, and loans payable	137,035,471	-
Total noncurrent liabilities	<u>137,627,853</u>	<u>-</u>
Total liabilities	<u>151,895,801</u>	<u>127,683</u>
NET POSITION		
Net investment in capital assets	171,411,024	5,403,085
Restricted for debt service	8,708,139	-
Unrestricted	7,914,337	1,875,928
Total net position	<u>\$ 188,033,500</u>	<u>\$ 7,279,013</u>

The Notes to the Basic Financial Statements
are an integral part of these statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities Water and Wastewater	Governmental Activities Internal Service
OPERATING REVENUES		
Charges for services	\$ 29,187,630	\$ 13,605,942
Other	96,373	86,602
Total operating revenues	29,284,003	13,692,544
OPERATING EXPENSES		
Personnel	5,526,433	609,361
Contractual services	4,985,492	13,714
Utilities	1,615,413	-
Insurance	-	11,151,334
Repairs and maintenance	1,074,237	571,189
Other supplies and expenses	793,873	57,533
Depreciation	4,595,649	1,261,449
Total operating expenses	18,591,097	13,864,580
Operating income	10,692,906	27,964
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	54,828	693
Interest expense	(5,849,771)	-
Gain on disposal of capital assets	11,392	3,222
Total nonoperating revenues (expenses)	(5,783,551)	3,915
Income before contributions and transfers	4,909,355	31,879
CAPITAL CONTRIBUTIONS	13,540,923	-
TRANSFERS, NET	(2,616,555)	-
Change in net position	15,833,723	31,879
NET POSITION, BEGINNING OF YEAR	172,199,777	7,247,134
NET POSITION, END OF YEAR	\$ 188,033,500	\$ 7,279,013

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF LEAGUE CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	Business Type Activities Water and Wastewater	Governmental Activities Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 29,419,956	\$ 13,692,544
Payments to suppliers	(8,282,482)	(11,726,074)
Payments to employees	(5,469,836)	(606,682)
Net cash provided by operating activities	15,667,638	1,359,788
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(2,616,555)	-
Net cash (used in) noncapital financing activities	(2,616,555)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on debt	(7,312,144)	-
Receipts for system development	8,623,624	-
Acquisition and construction of capital assets	(18,754,119)	(1,599,947)
Interest and fiscal charges	(5,875,933)	-
Proceeds from sale of capital assets	34,730	89,042
Net cash (used in) capital and related financing activities	(25,283,842)	(1,510,905)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(200,674)	-
Interest on investments	54,828	693
Net cash (used in) provided by investing activities	(145,846)	693
Net decrease in cash and equivalents	(12,378,605)	(150,424)
Cash and cash equivalents, beginning of year	81,946,866	2,132,729
Cash and cash equivalents, end of year	\$ 69,568,261	\$ 1,982,305
Unrestricted cash and cash equivalents	\$ 4,384,440	\$ 1,982,305
Restricted cash and cash equivalents	65,183,821	-
Total cash and cash equivalents	\$ 69,568,261	\$ 1,982,305

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF CITY OF LEAGUE CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014
(CONTINUED)**

	Business Type Activities Water and Wastewater	Governmental Activities Internal Service
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 10,692,906	\$ 27,964
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,595,649	1,261,449
Change in assets and liabilities (increase) decrease:		
Accounts receivable	72,404	-
Inventories	(190,365)	6,911
Accounts payable and accrued liabilities	392,688	20,533
Compensated absences	(4,557)	-
Customer deposits	63,549	-
Net other post employment benefits obligation	32,102	-
Net pension obligation	29,052	-
Due to other funds	(15,790)	42,931
Net cash provided by operating activities	\$ 15,667,638	\$ 1,359,788
NONCASH CAPITAL ACTIVITIES		
Capital assets contributed during the year	\$ 6,917,299	\$ -

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2014**

	4B Industrial Development Corporation	Volunteer Fire Department	Total Discretely Presented Component Units
ASSETS			
Cash and equity in pooled cash	\$ 6,131,767	\$ 77,366	\$ 6,209,133
Receivables, net	539,784	-	539,784
Total assets	<u>6,671,551</u>	<u>77,366</u>	<u>6,748,917</u>
LIABILITIES			
Accounts payable and accrued liabilities	<u>729,929</u>	<u>-</u>	<u>729,929</u>
Total liabilities	<u>729,929</u>	<u>-</u>	<u>729,929</u>
NET POSITION			
Unrestricted	<u>5,941,622</u>	<u>77,366</u>	<u>6,018,988</u>
Total net position	<u>\$ 5,941,622</u>	<u>\$ 77,366</u>	<u>\$ 6,018,988</u>

The Notes to the Basic Financial Statements
are an integral part of these statements.

CITY OF CITY OF LEAGUE CITY, TEXAS
 STATEMENT OF ACTIVITIES
 DISCRETELY PRESENTED COMPONENT UNITS
 YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Programs Revenues	
		Charges for Services	Operating Grants and Contributions
Component Units			
4B Industrial Development Corporation	\$ 4,004,392	\$ -	\$ 123,318
Volunteer Fire Department	8,415	-	52,737
Total component units	\$ 4,012,807	\$ -	\$ 176,055

General revenues

Sales tax

Investment earnings

Total general revenues

Change in net position

Beginning net position

Ending net position

The Notes to the Basic Financial Statements
 are an integral part of these statements.

4B Industrial Development Corporation	Volunteer Fire Department	Total
\$ (3,881,074)	\$ -	\$ (3,881,074)
-	44,322	44,322
<u>(3,881,074)</u>	<u>44,322</u>	<u>(3,836,752)</u>
2,303,866	-	2,303,866
5,573	-	5,573
<u>2,309,439</u>	<u>-</u>	<u>2,309,439</u>
(1,571,635)	44,322	(1,527,313)
7,513,257	33,044	7,546,301
<u>\$ 5,941,622</u>	<u>\$ 77,366</u>	<u>\$ 6,018,988</u>

The Notes to the Basic Financial Statements
are an integral part of these statements.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of League City, Texas (the City) was incorporated in May 1962 and adopted a Home Rule Charter which provided for a Mayor-Council form of government. In May 2010, the voters of the City approved various amendments to the City charter, including adoption of the Council Manager form of government and the creation of the office of the City Manager. A Mayor and seven Council members are elected by voters of the City at large for four year terms.

The City Council is the principal legislative and administrative body of the City. Subject to confirmation of the City Council, the Mayor has the power to appoint all boards, commissions, agencies, and officers provided for in the charter or by ordinance. The Mayor is the presiding officer of the City Council.

The City Manager is the head of the administrative departments of the City and is the supervisor of all administrative officers, employees, directors, and department heads, with the exception of the City Attorney, City Secretary, and the City Auditor. Departments and agencies of the City submit budget requests to the City Manager.

The City provides the following services: public safety (police, fire, and EMS), public works, water and sewer services, solid waste collection and disposal (contract), community services, and general government.

The City is an independent political subdivision of the State of Texas governed by an elected Council and a Mayor and is considered the primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered the primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of the primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Discretely Presented Component Units

The aggregate governmental discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

City of League City Section 4B Industrial Development Corporation

All powers of the Section 4B Industrial Development Corporation (the Corporation) are vested in a Board consisting of seven persons who are appointed by the City Council. The Board acts on behalf of the City in administering the provisions of Section 4B, Article 5190.6, of the Development Act of 1979, State of Texas. The Corporation is funded by a one-quarter percent local sales and use tax approved by local voters. The Corporation is fiscally dependent on the City because the capital budgets are approved by City Council. In addition, the Corporation is prohibited from issuing bonded debt without approval of the City Council.

League City Volunteer Fire Department

The members of the governing board are appointed by City Council. A budget is approved annually to provide fire protection to the citizens of the City. In fiscal year 2011, the City hired a full time fire chief, who provides leadership and direction for the volunteer fire department and the volunteers.

Blended Component Units

The following blended component units are reported with the primary government:

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Two – Victory Lakes

Five of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The Clear Creek Independent School District is a participant in this TIRZ and appoints one member to the Board. The County of Galveston is also a participant and appoints the remaining member of the Board. This entity was created to provide the financing and management tools needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Blended Component Units – Continued

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Three – CenterPointe

Six of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The remaining board member is appointed by the County of Galveston. This entity was created to provide the financing and management tools needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Four – Westwood

Six of the nine members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The remaining board members are represented by a County of Galveston appointee, the State Senator for the area or designee, and the State Representative for the area or designee. This entity was created to provide the financing and management tools needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

City of League City Public Improvement District (PID) No. One - Magnolia Creek

City Council approved an ordinance terminating Tax Increment Reinvestment Zone (TIRZ) No. One on August 14, 2010. However, the TIRZ Board continues to oversee the operations of the PID created in conjunction with the TIRZ. The PID was created to assist in the financing of the residential costs of a master planned community. The revenues are derived from an assessment levied against each residential lot and are used to reimburse the developer for infrastructure costs. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Blended Component Units – Continued

City of League City Public Improvement District (PID) No. Two – Victory Lakes

The City of League City Tax Increment Reinvestment Zone (TIRZ) No. Two - Victory Lakes Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

City of League City Public Improvement District (PID) No. Three – CenterPointe

The City of League City Tax Increment Reinvestment Zone (TIRZ) No. Three – Center Pointe Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

City of League City Public Improvement District (PID) No. Five - Park on Clear Creek

This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 25 years. The City Council has dissolved the board and now functions on their behalf.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

TIRZ No. One, a previous component unit of the City, was dissolved during fiscal year 2010. The remaining funds are to be used by the City to complete certain infrastructure improvements within the TIRZ.

Complete financial statements of the individual component units can be obtained directly from the administrative offices of the City.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Blended Component Units – Continued

Not included as part of the City's reporting entity are 12 municipal utility districts (MUDs). The City acts as an operator of these facilities. The City rebates 5 of the MUDs from four to 40 percent of the taxes levied and collected within the MUDs but does not guarantee the debt of the MUDs. The MUDs' Boards of Directors are elected officials and the City exercises no control over the Boards of Directors. The MUDs construct the facilities and issue bonds to finance such facilities. The MUDs release their security interest in the facilities to the City, and the City operates and maintains the systems. Galveston County MUD #2, South Shore Harbour MUD #2 and South Shore Harbour MUD #3 were dissolved during fiscal years 2014, 2012 and 2011, respectively. The City has taken over any outstanding debt of these entities.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service* fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue* funds are used to account for proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects funds* are used to account for the expenditures of resources accumulated from the sale of long-term debt, committed operating funds, designated special revenues, and related interest earnings for capital improvement projects. All of the capital projects are nonmajor funds except the Certificates of Obligation 2012 fund, which is a major fund for the 2014 fiscal year.

The City reports the following enterprise fund:

The enterprise fund is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and wastewater fund is considered a major fund for reporting purposes.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Basis of Presentation – Fund Financial Statements – Continued

Additionally, the City reports the following fund type:

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The City's internal service funds are used to account for motor pool services, which are financed from systematic transfers from general governmental and enterprise funds, and to account for premiums paid on a group health insurance plan for City employees and to account for insurance benefits provided to City employees.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers to business-type activities in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers to governmental activities in the business-type activities column.

E. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Measurement Focus/Basis of Accounting – Continued

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in statewide investment pools (TexPool and TexSTAR), and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. Cash and Cash Equivalents – Continued

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest – bearing accounts and other investments are displayed on the combined balance sheet as cash and equity in pooled cash. For cash management purposes, the City has a sweep arrangement with the bank to transfer cash balances to a money market mutual fund account each day. Cash in excess of current requirements is invested in various interest-bearing securities or certificates of deposit and disclosed as part of the City's investments.

G. Investments

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for money market investments and 2a7-like pools. Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool and TexStar, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government or U.S. Government agencies
- Obligations of the state of Texas or it's agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Banker's acceptance
- Statewide investment pools

H. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	30 years
Equipment	5 years
Water and sewer system	50 years
Infrastructure	50 years

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding bonds reported in the government-wide and proprietary fund Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items, which arises only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, unavailable revenue, are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, court fines and warrants, and refuse collection fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available,

L. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Unused vacation accumulated, up to certain amounts, may be paid to employees upon termination of employment.

Length of Service (Months)	Maximum Vacation Leave Accrual
1-60	160 hours
61-120	240 hours
121-180	320 hours
181-240	400 hours
More than 240	480 hours

Upon retirement from the City, an employee may receive compensation for unused sick pay benefits, however no compensation will be made for unused sick pay benefits in excess of 720 hours.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligation, only that portion expected to be paid from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be paid from proprietary fund operations are accounted for in those funds.

The government-wide financial statement and proprietary fund type fund financial statements report long-term debt and other long-term liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are amortized over the life of the bond using the effective interest method. Bonds payable are reported net of applicable bond premiums or discounts.

The fund financial statements report bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts associated with the debt are reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

O. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

P. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Nonspendable fund balance represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the action remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The City strives to maintain a minimum fund balance assigned for operating reserves in the general fund between 90 and 100 days of current year operating expenditures. Fund balances are assigned in the special revenue funds based on the designated purpose of each fund.

Q. Post-Employment Healthcare Benefits

The City provides post-employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under COBRA, and the City incurs no direct costs. In January 2004, the City approved the payment of health insurance premiums for eligible retirees. Coverage is offered to those employees who are at least 60 years of age and who are retiring with 20 years of service with the City. The retiree cost for health insurance will be covered until the retiree reaches the age of 65. At this time, the retiree would then be eligible for the Medicare Part B coverage at their own expense.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

R. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

S. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

T. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

U. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and internal service fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund and internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

V. Recently Issued Accounting Pronouncements

During June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective for fiscal years beginning after June 15, 2014. The City is evaluating the impact of this statement on their financial statements.

During November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The Primary objective of this statement is to address the issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement adds clarity to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement is effective for fiscal years beginning after June 15, 2014. The City is evaluating the impact of this statement.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. In addition, the following special revenue funds do not have an adopted budget: TIRZ No. Two, Three, and Four, PID No. One, Two, Three, and Five, Galveston County MUD#2, TDRA Disaster Recovery Fund, Special Assessments Fund, CDBG Fund, Tree Preservation Fund, Safelight Program, and the Severe Repetitive Loss Grant Fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

A. Deficit Fund Balance

The individual special revenue fund noted below had a deficit fund balance at year end, as indicated.

Tax Increment Reinvestment Zone No. Three \$431,667

NOTE 3. DEPOSITS AND INVESTMENTS

As of September 30, 2014, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Municipal bonds	\$ 1,812,774	2.55
Certificates of deposit	10,356,417	11.61
External investment pools:		
TexPool	79,597,729	0.59
TexSTAR	43,247,393	0.32
Total fair value	\$ 135,014,313	
Portfolio weighted average maturity		15.07

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Credit Risk. The City's policy requires that investment pools must be rated no lower than AAA or AAAm. Bankers' acceptances must be issued in the United States and carry a short-term rating of not less than A1 or P1 or an equivalent rating by at least one nationally recognized credit rating agency. Obligations of Texas municipalities must be rated no lower than AA by Standards and Poor's or equivalent rating by Moody's Investor Services. As of September 30, 2014, the City's investments in TexPool and TexStar were rated AAAm by Standard & Poor's and investments in municipal bonds were rated at least AA by Standard and Poor's.

Custodial Credit Risk — Deposits. In the case of deposits, this is the risk that the City's deposits may not be returned in the event of a bank failure. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2014, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial Credit Risk — Investments. For an investment, this is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third party custody/safekeeping agent.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

TexSTAR

The Texas Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexPool and TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and TexSTAR use amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair values of the positions in TexPool and TexSTAR are the same as the values of TexPool and TexSTAR shares.

NOTE 4. RECEIVABLES

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, and the enterprise fund, including the applicable allowances for uncollectible accounts:

	General	Debt Service	Nonmajor	Water and Wastewater	Total
Ad valorem taxes	\$ 1,224,164	\$ 718,184	\$ 4,109	\$ -	\$ 1,946,457
Other taxes	3,982,988	-	173,079	-	4,156,067
Accounts	2,842,347	144	147,952	4,957,942	7,948,385
Intergovernmental	91,670	-	376,816	-	468,486
Other	277,701	-	169,762	5,293	452,756
Less allowance	(2,052,334)	(243,026)	(1,030)	(104,930)	(2,401,320)
Total	\$ 6,366,536	\$ 475,302	\$ 870,688	\$ 4,858,305	\$ 12,570,831

CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

The following is a summary of changes in capital assets for governmental activities for the year ended:

	Primary Government			
	Beginning Balance	Reclassifications Increases	Reclassifications (Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 12,942,153	\$ 898,253	\$ -	\$ 13,840,406
Construction in progress	17,062,536	29,172,138	(1,228,029)	45,006,645
Total capital assets not being depreciated	30,004,689	30,070,391	(1,228,029)	58,847,051
Other capital assets				
Infrastructure	300,153,062	23,696,630	-	323,849,692
Buildings and improvements	50,551,922	65,899	-	50,617,821
Machinery and equipment	35,820,010	2,051,199	(1,221,391)	36,649,818
Total other capital assets	386,524,994	25,813,728	(1,221,391)	411,117,331
Less accumulated depreciated for				
Infrastructure	(140,096,000)	(5,854,471)	-	(145,950,471)
Buildings and improvements	(21,187,101)	(2,263,766)	1,087,010	(22,363,857)
Machinery and equipment	(20,490,507)	(3,124,727)	-	(23,615,234)
Total accumulated depreciation	(181,773,608)	(11,242,964)	1,087,010	(191,929,562)
Other capital assets, net	204,751,386	14,570,764	(134,381)	219,187,769
Governmental activities capital assets, net	\$ 234,756,075	\$ 44,641,155	\$ (1,362,410)	278,034,820
		Less associated debt		(118,090,908)
		Plus deferred charge on refunding		1,169,423
		Plus unspent bond proceeds		11,335,673
		Net investment in capital assets		\$ 172,449,008

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

General government	\$ 211,360
Public safety	2,415,338
Public works	6,569,513
Community services	2,046,753
Total governmental activities depreciation expense	<u>\$ 11,242,964</u>

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. CAPITAL ASSETS – CONTINUED

Construction in progress and remaining commitments under related construction contracts for general government construction projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Contract
Robinson Bayou Bank Stabilization	\$ 37,800	\$ 14,920	\$ 22,880
Annual Stormwater Improvements	414,292	349,575	64,717
Genco Canal	29,300	24,900	4,400
Brookport Extension	2,479,412	1,869,166	610,246
Fire Station EMS Expansion	2,546,172	2,536,953	9,220
Renovate Helen Hall Library	73,850	42,292	31,558
Renovate Council Chambers	72,500	53,235	19,265
New Burn Building	33,402	23,354	10,048
Public Safety & Court Center	26,188,000	24,911,144	1,276,856
Hometown Heroes Park-pool & traffic signal	2,960,126	1,795,315	1,164,810
Countyside-Magnolia Creek Trail	174,729	100,272	74,457
WaterSmart Park	218,000	117,529	100,471
TXDOT FMS18 Bypass Hike & Bike	1,626,380	40,334	1,586,046
2012 Hike & Bike Phase 1	2,001,775	442,305	1,559,470
Calder Rd-Ervin to LC Prkwy	108,390	87,467	20,923
Five Corners Realignment	1,207,532	640,328	567,204
Texas Avenue	517,180	435,155	82,024
LC Parkway/Bay Area Blvd Extension	151,250	147,273	3,977
HGAC/TIP Design	952,272	323,814	628,458
Hobbs Rd & LC Prkwy Traffic Improv	347,614	207,614	140,000
FM518 Access Management	482,410	479,422	2,988
Total	\$ 42,622,384	\$ 34,642,366	\$ 7,980,018

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. CAPITAL ASSETS – CONTINUED

Construction in progress and remaining commitments under related construction contracts for enterprise fund projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Contract
Brookport Extension	\$ 184,360	\$ 54,135	\$ 130,225
Northside Water Booster	40,210	30,136	10,074
East Side Elevated Water Tower	198,695	121,798	76,897
South Shore Harbour Pump Station Exp	11,587,818	1,410,868	10,176,950
Southeast Service Area Trunks	370,150	178,840	191,310
SH3 Water Booster Station	18,744,196	17,957,663	786,533
36" WL - SH3 to SSH Booster Station	1,039,507	440,050	599,457
New Water Wells	797,400	701,700	95,700
Calder Rd Booster Station	13,201,163	1,243,460	11,957,703
Countryside Pump Station & Well Rehab	1,644,244	838,477	805,767
Water Line Upgrades & Replacement	2,100,900	248,776	1,852,124
Calder 39" Waterline Rehab	2,921,135	2,704,999	216,136
Annual Water System Improvements	110,900	10,496	100,404
FW11 LS Upgrade	99,851	70,661	29,190
Re-Use Improvements-Ph 1	240,550	109,629	130,921
Sanitary Sewer Rehab 2012	1,956,644	1,376,992	579,651
Force Main Upgrade-Bay Colony to Ervin	187,600	133,747	53,853
Hobbs Rd LS & FM	60,500	47,611	12,889
30" Gravity Sewer on Calder Rd	180,092	82,899	97,193
MUD #6 LS Rehab	37,210	17,392	19,818
Emergency Generators	1,055,400	70,945	984,455
Total	\$ 56,758,525	\$ 27,851,275	\$ 28,907,249

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Long-term debt for governmental activities comprised the following debt issues at year end:

Series	Original Issue	Interest Rate	Balance
General obligation bonds			
2006 Refunding Bonds (SSH MUD #2)	\$ 2,160,000	3.90% to 4.00%	\$ 1,345,000
2011A General Obligation Refunding Bonds	\$ 6,975,000	2.00% to 5.00%	5,780,000
2011B General Obligation Refunding Bonds	\$ 6,075,000	2.00% to 4.00%	3,610,000
2012 General Obligation Refunding Bonds	\$ 6,785,000	2.00% to 5.00%	6,590,000
2013 General Obligation Refunding Bonds	\$ 13,819,988	2.00% to 4.00%	12,124,034
2013A General Obligation Refunding Bonds	\$ 2,190,000	2.00% to 4.00%	1,975,000
2014 General Obligation Refunding Bonds	\$ 3,200,000	2.00% to 4.00%	3,200,000
Total general obligation bonds			34,624,034
Certificates of obligation			
2003C Tax and Revenue Certificates of Obligation	\$ 3,135,000	1.50% to 4.00%	335,000
2005A Tax and Revenue Certificates of Obligation*	\$ 8,500,000	4.00% to 4.50%	4,430,000
2006A Tax and Revenue Certificates of Obligation	\$ 4,695,000	4.15% to 6.00%	215,000
2008 Tax and Revenue Certificates of Obligation	\$ 15,500,000	4.00% to 5.00%	12,875,000
2009 Tax and Revenue Certificates of Obligation	\$ 11,600,000	3.13% to 5.13%	8,640,000
2010 Tax and Revenue Certificates of Obligation*	\$ 10,000,000	3.13% to 5.13%	1,230,000
2011 Tax and Revenue Certificates of Obligation*	\$ 20,390,000	2.75% to 4.75%	17,120,000
2012A Tax and Revenue Certificates of Obligation	\$ 33,675,000	2.00% to 5.00%	32,300,000
Total certificates of obligation			77,145,000
Total governmental activities long-term debt			\$ 111,769,034

*This general obligation debt is supported by a general tax pledge, however the repayment of all or a portion of this general obligation debt is expected to be paid from revenues other than ad valorem tax revenues, including payments from tax increment zones and payments from the Section 4B Industrial Development Corporation. Payments from tax increment reinvestment zones and the Section 4B Industrial Development Corporation may not be legally pledged to the obligations to which their payments are expected to be dedicated, but are contractually obligated to be paid to the City for that purpose.

CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

Long-term debt for business-type activities comprised the following debt issues at year end

Series	Original Issue	Interest Rate	Balance
Revenue bonds			
2005 Water Works & Sewer System Revenue Refunding Bonds	\$ 8,570,000	3.87% to 3.87%	\$ 3,500,000
2008 Water Works & Sewer System Revenue Bonds	\$ 26,775,000	4.00% to 5.00%	23,045,000
2009 Water Works & Sewer System Revenue Bonds	\$ 37,200,000	3.00% to 5.00%	35,210,000
2011 Water Works & Sewer System Revenue Bonds	\$ 13,040,000	3.00% to 4.50%	11,335,000
Total revenue bonds			<u>73,090,000</u>
General obligation bonds			
2007 General Obligation Refunding Bonds*	\$ 16,303,720	4.00% to 4.12%	2,365,000
2011A General Obligation Refunding Bonds	\$ 4,705,000	2.00% to 5.00%	4,285,000
2012 General Obligation Refunding Bonds	\$ 6,510,000	2.00% to 5.00%	6,510,000
2013 General Obligation Refunding Bonds	\$ 1,075,012	2.00% to 4.00%	700,966
Total general obligation bonds			<u>13,860,966</u>
Certificates of obligation			
2011A Tax and Revenue Certificates of Obligation	\$ 32,290,000	3.00% to 5.00%	32,290,000
2012B Tax and Revenue Certificates of Obligation	\$ 19,635,000	2.00% to 5.00%	18,190,000
Total certificates of obligation			<u>50,480,000</u>
Contract revenue bonds			
2011F GCWA Contract Revenue Refunding Bonds	\$ 2,250,000	2.00% to 4.00%	1,640,000
Total Contract Revenue Bonds			<u>1,640,000</u>
Total business-type activities long-term debt			<u><u>\$ 139,070,966</u></u>

* This general obligation debt is supported by a general property tax pledge, however, the repayment of this general obligation debt is expected to be paid from surplus revenues of the water and sewer system. Water and sewer revenues are pledged to pay certificates of obligation on a subordinate basis, but it is the historic policy of the City to pay portions of the listed general obligation refunding bonds from surplus revenues of the water and sewer system.

CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

The annual requirements to amortize general obligation bonds outstanding at year end are as follows:

Year Ending Sept. 30	Governmental Activities			Business - Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 3,101,939	\$ 4,353,158	\$ 7,455,097	\$ 793,082	\$ 578,903	\$ 1,371,985
2016	4,104,063	990,967	5,095,030	765,936	549,068	1,315,004
2017	3,850,044	862,629	4,712,673	1,469,956	508,430	1,978,386
2018	3,941,026	746,870	4,687,896	1,508,974	453,466	1,962,440
2019	3,007,990	643,112	3,651,102	1,572,010	392,222	1,964,232
2020	2,783,972	536,315	3,320,287	1,611,028	322,224	1,933,252
2021	2,250,000	441,692	2,691,692	1,120,000	256,382	1,376,382
2022	2,310,000	356,390	2,666,390	1,170,000	199,132	1,369,132
2023	2,070,000	278,611	2,348,611	995,000	147,057	1,142,057
2024	1,425,000	218,466	1,643,466	1,050,000	99,997	1,149,997
2025	1,475,000	164,756	1,639,756	1,095,000	50,312	1,145,312
2026	900,000	123,628	1,023,628	235,000	20,897	255,897
2027	565,000	101,219	666,219	230,000	12,907	242,907
2028	580,000	82,941	662,941	245,000	4,441	249,441
2029	425,000	66,922	491,922	-	-	-
2030	440,000	53,263	493,263	-	-	-
2031	450,000	38,931	488,931	-	-	-
2032	465,000	23,910	488,910	-	-	-
2033	480,000	8,100	488,100	-	-	-
Total	\$ 34,624,034	\$ 10,091,880	\$ 44,715,914	\$ 13,860,966	\$ 3,595,438	\$ 17,456,404

CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

The annual requirements to amortize revenue bonds outstanding at year end are as follows:

Year Ending Sept. 30	Business - Type Activities		
	Principal	Interest	Total
2015	\$ 4,980,000	\$ 3,069,764	\$ 8,049,764
2016	4,665,000	2,896,353	7,561,353
2017	4,305,000	2,732,533	7,037,533
2018	4,135,000	2,574,981	6,709,981
2019	3,950,000	2,420,450	6,370,450
2020	3,780,000	2,269,750	6,049,750
2021	4,170,000	2,110,383	6,280,383
2022	4,000,000	1,943,201	5,943,201
2023	4,040,000	1,775,371	5,815,371
2024	3,850,000	1,606,028	5,456,028
2025	3,665,000	1,438,303	5,103,303
2026	4,455,000	1,249,053	5,704,053
2027	4,305,000	1,040,764	5,345,764
2028	4,155,000	834,706	4,989,706
2029	2,660,000	665,250	3,325,250
2030	2,735,000	530,375	3,265,375
2031	2,815,000	391,625	3,206,625
2032	2,080,000	269,250	2,349,250
2033	2,140,000	163,750	2,303,750
2034	2,205,000	55,125	2,260,125
	<u>\$ 73,090,000</u>	<u>\$ 30,037,015</u>	<u>\$ 103,127,015</u>

The annual requirements to amortize certificates of obligation outstanding at year-end are as follows:

Year Ending Sept. 30	Governmental Activities			Business - Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 3,750,000	\$ 3,218,248	\$ 6,966,248	\$ 740,000	\$ 2,098,050	\$ 2,838,050
2016	3,545,000	3,095,118	6,640,118	760,000	2,079,250	2,839,250
2017	3,645,000	2,976,280	6,621,280	785,000	2,056,075	2,841,075
2018	4,390,000	2,834,043	7,224,043	810,000	2,032,150	2,842,150
2019	4,505,000	2,672,999	7,177,999	1,165,000	2,000,050	3,165,050
2020	4,655,000	2,492,035	7,147,035	1,525,000	1,946,300	3,471,300
2021	4,740,000	2,285,694	7,025,694	1,945,000	1,868,375	3,813,375
2022	4,885,000	2,072,679	6,957,679	2,375,000	1,769,550	4,144,550
2023	5,000,000	1,852,942	6,852,942	2,585,000	1,678,488	4,263,488
2024	5,135,000	1,619,587	6,754,587	3,030,000	1,597,875	4,627,875
2025	4,570,000	1,377,785	5,947,785	3,500,000	1,477,544	4,977,544
2026	4,730,000	1,161,942	5,891,942	3,050,000	1,325,213	4,375,213
2027	4,860,000	937,429	5,797,429	3,580,000	1,159,463	4,739,463
2028	5,025,000	725,837	5,750,837	4,135,000	966,588	5,101,588
2029	5,140,000	524,860	5,664,860	6,020,000	742,651	6,762,651
2030	4,020,000	324,606	4,344,606	6,360,000	463,088	6,823,088
2031	2,225,000	171,875	2,396,875	6,725,000	174,631	6,899,631
2032	2,325,000	58,125	2,383,125	1,390,000	22,588	1,412,588
	<u>\$ 77,145,000</u>	<u>\$ 30,400,084</u>	<u>\$ 107,545,084</u>	<u>\$ 50,480,000</u>	<u>\$ 25,467,929</u>	<u>\$ 75,937,929</u>

CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

The annual requirements to amortize contract revenue bonds outstanding at year end are as follows:

Year Ending Sept. 30	Business - Type Activities		
	Principal	Interest	Total
2015	\$ 210,000	\$ 56,088	\$ 266,088
2016	220,000	49,787	269,787
2017	225,000	43,188	268,188
2018	235,000	36,437	271,437
2019	240,000	28,800	268,800
2020	250,000	20,400	270,400
2021	260,000	10,400	270,400
	<u>\$ 1,640,000</u>	<u>\$ 245,100</u>	<u>\$ 1,885,100</u>

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water, and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation, and revenue bonds. Future ad valorem tax revenues and water and sewer system revenues secure these debt obligations.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

Refunding debt

On October 29, 2013, the City issued, through a private placement, \$2,190,000 of general obligation refunding bonds, series 2013A. The proceeds from which were used to pay bond issuance costs and to reimburse the developer for public infrastructure improvements within Public Improvement District #3. The obligation to the developer was not an obligation of the City and repaying of the bonds will be made from special assessments paid by homeowners within the district. Due to the obligation not previously being due to the City, no gain or loss was recorded in relation to the refunding issuance.

On July 18, 2014, the City issued, through a private placement, \$3,200,000 of general obligation refunding bonds, series 2014A. The proceeds from which were used to pay bond issuance costs and to reimburse the developer for public infrastructure improvements within Public Improvement District #1. The obligation to the developer was not an obligation of the City and repaying of the bonds will be made from special assessments paid by the homeowners within the district. Due to the obligation not previously being due to the City no gain or loss was recorded in relation to the refunding issuance.

The total amount of governmental and business-type defeased bonds outstanding as of September 31, 2014 is \$3,115,000.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Assumption of debt

On December 31, 2013, the City assumed the assets and liabilities of the Galveston County Municipal Utility District #2 (GCMUD #2) upon its dissolution. Due to the dissolution occurring prior to the final maturity of the GCMUD #2 waterworks and sewer system combination unlimited tax refunding bonds, series 1998, the City contributed \$960,000 to pay the remaining principal amount owed. This contribution was comprised of the annual property tax rebate to the district and of the residual cash balance of the district.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS. There was no liability for arbitrage recorded as of year-end.

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Nonmajor Governmental Funds	Debt Service Fund	\$ 22,714
General Fund	Internal Service Fund	189
General Fund	Internal Service Fund	50,000
General Fund	Nonmajor Governmental Funds	97
General Fund	Nonmajor Governmental Funds	455,700
General Fund	Nonmajor Governmental Funds	496
General Fund	Nonmajor Governmental Funds	446
General Fund	Water and Wastewater Fund	1,932
	Total	\$ 531,574

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. INTERFUND TRANSFERS

Transfers between the primary government funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General Fund	Nonmajor Governmental Funds	\$ 3,677,084
Water and Wastewater Fund	General Fund	2,350,000
Water and Wastewater Fund	Nonmajor Governmental Funds	337,500
Nonmajor Governmental Funds	Water and Wastewater Fund	70,945
Nonmajor Governmental Funds	General Fund	1,105
	Total	<u><u>\$ 6,436,634</u></u>

The general fund made transfers to nonmajor governmental funds to provide financing for capital projects and a citywide management system. The general fund also provided initial funding for the new Fire/EMS Donation fund. The water and wastewater fund provided monies to the general fund for reimbursement of administrative costs related to the support of the water and wastewater system. The water and wastewater fund also provided financing for the citywide management system. The nonmajor governmental funds provided monies to the water and wastewater fund and to the general fund for a special assessment payment.

NOTE 9. RESTRICTED ASSETS

As of September 30, 2014, the City held restricted cash and investments in the water and wastewater fund for the following purposes:

Restricted for	
Customer deposits	\$ 757,199
Capital projects	61,756,269
Debt service	8,708,139
Total	<u><u>\$ 71,221,607</u></u>

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year-end.

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

C. Pension Plans – Continued

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and RSI for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2014</u>	<u>2013</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

C. Pension Plans – Continued

The City contributes to TMRS at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and the net pension obligation (asset) are as follows:

Annual required contribution (ARC)	\$ 4,150,905
Interest on Net Position Obligation (NPO)	149,283
Adjustment to the ARC	<u>(134,236)</u>
Annual Pension Cost (APC)	4,165,952
Contributions made	<u>(3,923,698)</u>
Increase in NPO	242,254
NPO - beginning of year	<u>2,132,610</u>
NPO - end of year	<u><u>\$ 2,374,864</u></u>

Three-year trend information for the annual pension cost (APC) is as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Position Obligation</u>
2012	\$ 3,797,489	\$ 3,474,304	91.5%	\$ 1,843,994
2013	3,992,236	3,703,620	92.8%	2,132,610
2014	4,165,952	3,923,698	94.2%	2,374,864

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

C. Pension Plans – Continued

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2012 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013 also follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	24.0 Years - closed period	25.1 Years - closed period	26.2 Years - closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Investment Rate of Return	7.00%	7.00%	7.00%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00% 2.10%	3.00% 2.10%	3.00% 2.10%

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

	<u>2014</u>
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 83,204,888
Actuarial Accrued Liability	\$ 110,087,652
Percentage Funded	75.6%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 26,882,764
Annual Covered Payroll	\$ 26,976,005
UAAL as a Percentage of Covered Payroll	99.7%

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

C. Pension Plans – Continued

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Other Post-Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an other post-employment benefit, or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2014, the City offered the supplemental death benefit to both active and retired employee.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

D. Other Post-Employment Benefits – Continued

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF base on .02% of covered payroll for the fiscal years ended 2014, 2013, and 2012 totaled \$5,523, \$5,339, and \$5,022, respectively, which equaled the annual required contribution.

E. Post-Employment Healthcare Plan

Plan Description

The City administers a single-employer defined benefit other post-employment benefits (OPEB) plan, known as the Retiree Medical Program (the Program). The Program offers medical and dental insurance benefits to eligible retirees and their spouses. Retiree medical coverage levels for retirees are the same as coverage provided to active City employees. Upon the death of the retiree, the spouse is eligible for coverage under COBRA.

Employees are eligible for retiree health benefits if they retire at the age of 60 or older with at least five years of service from the City, at least ten years of combined service with other municipalities and are also eligible for a pension from TMRS. Employees with 20 years of service may retire at any age. The City contributes up to 100 percent of the monthly premium for retirees that are age 60 with 20 years of service with the City. Employees eligible to retire under TMRS as a disability retiree if they have worked with the City for a minimum of five years and have at least ten years of combined service with all municipalities are eligible for a portion of their health insurance based on their age. For employees who become disabled prior to eligibility for retirement, retiree medical benefits are not available. The City requires retirees to enroll in Medicare once eligible. The City does not provide Medicare supplemental health benefits coverage after the date that person becomes eligible for Medicare benefits.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

E. Post-Employment Healthcare Plan – Continued

Funding Policy

The City has elected to subsidize premiums for the Program and funding is provided on a pay-as-you go basis.

Annual OPEB Cost

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the fiscal year ending September 30, 2014 is as follows:

Annual Req. Contrib. (ARC)	\$ 357,859
Interest on OPEB Obligation	33,357
Adjustments to ARC	(30,905)
End of YEAR Annual OPEB Cost (Expense)	360,311
Net Estimated Employer Contributions	(146,030)
Increase in Net OPEB Obligation	214,281
Net OPEB Obligation (Asset) - beginning of year	741,267
Net OPEB Obligation (Asset) - end of year	<u>\$ 955,548</u>

A separate audited GAAP basis post-employment benefit plan report is not available.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Program, and the net OPEB obligation for 2014 and the two preceding years are as follows:

Fiscal Year	Annual OPEB Cost (ARC)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	
			Beginning	Ending
2012	\$ 236,663	50.6%	\$ 432,104	\$ 548,959
2013	349,252	44.9%	548,959	741,267
2014	360,311	40.5%	741,267	955,548

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Program was zero percent funded. The actuarial accrued liability for benefits was \$3,097,039 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,097,039. The annual covered payroll at December 31, 2011 was \$25,322,107 and the UAAL as a percentage of the annual covered payroll was 12.2 percent.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

E. Post-Employment Healthcare Plan – Continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation Period	3.00% per annum
Investment Rate of Return	4.5% per annum net of expenses
Actuarial Cost Method	Projected unit credit
Amortization Method	Level as a percentage of employee payroll
Remaining Amortization Period	30 year open amortization
Asset Valuation Method	Market value
Salary Growth	3.00% per annum
Healthcare Cost Trend Rate (Initial/Ulimate)	Initial rate of 8.5%, declining to an ultimate rate of 4.5% after 8 years.

**CITY OF LEAGUE CITY, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. OTHER INFORMATION – CONTINUED

F. Contracts

Summaries of the City's significant contracts are as follows:

1. Municipal Utility Districts

The City has entered into utility agreements with several Municipal Utility Districts (MUDs) whose boundaries overlap the boundaries of the City. The MUDs construct water, sanitary sewer, and drainage facilities to serve the areas within the MUDs and issue bonds to finance such facilities. The MUDs release their security interests in the facilities to the City, and the City operates and maintains the systems.

2. Galveston County Water Control and Improvement District No. One

The City entered into an agreement dated March 10, 1983 with Galveston County Water Control and Improvement District No. One (the District) providing for an inter-connect to be built between the City and the District by the Gulf Coast Water Authority (GCWA). The City agreed to buy one million gallons of water per day on a take-or-pay basis. Under a revised water supply agreement effective January 1, 1987, the annual volume of water to be paid for by the City on a take-or-pay basis was reduced to a minimum of 150,000 gallons per day, to be adjusted annually to an amount equal to the prior year's average usage, but not to exceed one million gallons per day. The cost to the City will vary depending on the cost to the District to fulfill its obligation. On December 8, 2009, the water supply agreement was revised to adjust the price and the obligation for delivery of water. GCWA shall sell and deliver 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided GCWA has excess water available, or for emergency use only.

3. Gulf Coast Water Authority – Water System Improvements

The City entered into an agreement with the GCWA on September 8, 1998 providing for the construction of water system improvements and issuance of GCWA contract bonds to finance the construction. The water system improvement included a transmission system to deliver 2 million gallons per day to the City from the Thomas Mackey Water Treatment Plant. The City is considered the owner of the assets and, as provided in the agreement, makes periodic payments to GCWA to service the debt.

4. Gulf Coast Water Authority – Water Capacity Contract

The City has entered into a long-term cost sharing contract with the GCWA to finance the expansion of the Houston Southeast Water Purification Plant. This twice amended water supply contract provides that GCWA reserve treatment and distribution capacity of 22.5 million gallons per day for the City.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



July 7, 2015

Norton Rose Fulbright US LLP
1301 McKinney, Suite 5100
Houston, Texas 77010-3095
United States

Tel +1 713 651 5151
Fax +1 713 651 5246
nortonrosefulbright.com

We have acted as bond counsel in connection with the issuance by the City of League City, Texas (the "*Issuer*") of its Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "*Certificates*") in the aggregate principal amount of \$17,445,000.

In rendering the opinions herein we have examined and relied upon an executed Certificate; original or certified copies of the proceedings had in connection with issuance of the Certificates, including the Ordinance of the governing body of the Issuer which authorizes issuance of the Certificates (the "*Ordinance*"); certificates of officers of the Issuer related to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the Issuer, which are within its sole knowledge and control; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

Based upon such examination, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates are valid and legally binding obligations of the Issuer payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Certificates are payable from and equally and ratably secured solely by a lien on and pledge of taxes within the limits prescribed by law and are further payable from and secured by a pledge of and lien on certain net revenues from the operation of the Issuer's waterworks and sanitary sewer system.

3. Pursuant to the Internal Revenue Code of 1986, as amended and in force on the date hereof (the "*Code*"), and existing regulations, published rulings, and court decisions thereunder, assuming continuing compliance with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and such interest will not be included for federal income tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss Verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

WE CALL TO YOUR ATTENTION THAT, interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit (REMIC), a real estate investment trust (REIT), or a financial assets securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any change in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service or any court; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,